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China Tourism and Hotels

Initiate coverage: Chain reaction gives hotel leaders room to grow

The move to mid-market hotels is set to drive industry growth

This should help China's leading hotel chains rapidly increase their market share

Initiate coverage on Jinjiang Hotels (Buy), BTG Hotels (Hold) and China CYTS Tours (Hold)

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Why read this report?

- We analyse the major shift to mid-market hotels…
- …which leaves China's major hotel chains very well positioned
- We initiate coverage on two major hotel groups and a leading tourism company

Moving up to the mid-market

The words "China" and "tourism" usually conjure up familiar images of the dominant force in the global travel industry. But there is another side to that story – the country's huge domestic tourism industry. This report initiates coverage on two major hotel groups and a leading tourism company and assesses the state of these industries as they emerge from lockdown following the coronavirus outbreak.

For the hotel industry, the key to growth is limited service hotels

For hotels, we think the key to growth is limited service hotels (LSH), an established part of the hospitality industry in Europe and the US, but a relatively new phenomenon in China. These hotels strip the amenities offered down to the basics, usually little more than a bed and a bathroom, with limited catering options. The business model is attractive as it lowers both the investment outlay and operational costs. Hotel guests are happy, too, as they get a comfortable room at a reasonable price.

Within the LSH segment, the mid-market hotels are growing their market share much faster than economy hotels, which is good for margins and profits. This hotel category is increasingly dominated by China's large hotel chains. We think this shift to the mid-market is the main driver of structural change in the country's hotel industry. Domestic hotel leaders are trading at an average of 24.6x 2021e PE, in comparison to 26.8x for international leaders. We believe domestic hotel leaders deserve a valuation premium, given their much greater growth potential than international peers. We initiate coverage on:

Jinjiang Hotels (600754 CH, Buy, TP RMB49.00)
The company enjoys strong scale and brand advantages. As of end-2019, the number of guest rooms had reached 845,177, ranking it first in China. According to Euromonitor, Jinjiang's mid-end LSH hotels have the largest market share in China, based on sales revenue.

BTG Hotels (600258 CH, Hold, TP RMB19.00)
BTG Hotels is the No. 3 in economy and mid-end hotel market share, based on sales revenue. Its main brand *Home Inns* is China's No. 2 economy brand based on room number. Its strategy is to gradually increase the proportion of mid-end LSH hotels.

CYTS (600138 CH, Hold, TP RMB12.00)
CYTS runs a travel agency, an exhibition business, resort operations, and hotels as well as a strategic investment business. The jewel in the crown that generates most of the profit is a themed resort built around the ancient town of Wuzhen, often called the Venice of China. But it's not clear when visitor numbers will fully recover after the COVID-19 outbreak.

Tourism and hotels – facts and figures

6.01bn

Number of domestic tourism trips taken in 2019, up 8.4% y-o-y

5.4x vs 2.4x

Difference in number of annual trips between urban and rural residents

Room to grow. The proportion of mid-end hotels is only 9% in China vs 33% in the US.

22% CAGR

Our forecast for the rise in the number of mid-end chain hotels over 2019-24e

26%

The market share of hotel chains in China – in developed markets it is more than 60%

8,647

The number of hotels Jinjiang operated at the end of 1Q20…

4,640

…and the number in the pipeline

Jinjiang – largest hotel group in China

At the end of March 2020, Jinjiang had 855,944 guest rooms, making it No. 1 in China by room scale.

35% to 43%

The increase in the ratio of Jinjiang's mid-end hotels between 1Q19 and 1Q20

87% to 89%

The rise in the ratio of Jinjiang's franchise hotels between 1Q19 and 1Q20

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Executive summary

- The mid-end chain hotel market is on a fast growth track despite a deceleration in the broader hotel industry
- Chain hotel rooms account for only 26% of the hotel industry vs over 60% in developed markets. Consolidation is set to accelerate
- We believe leading companies with scale and brand advantages deserve a valuation premium

Rapid growth of mid-end chain hotels

This report initiates coverage on two major hotel groups and a leading tourism company and assesses the state of these industries as they emerge from lockdown following the coronavirus outbreak.

Tourism

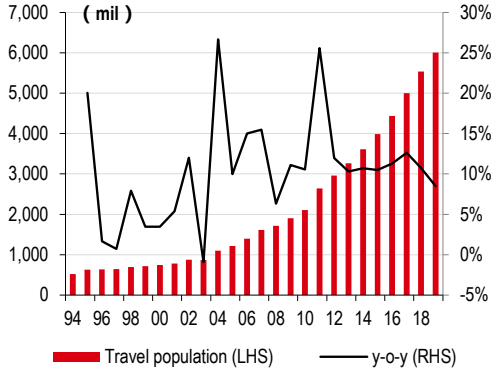
China's domestic tourism market expanded at a CAGR of nearly 12% over 2017-19

According to the National Bureau of Statistics (NBS), China's domestic tourism market expanded at a CAGR of nearly 12% over 2017-19 and we expect it to increase at an 11% CAGR over 2019-22. This will be driven by the government's strong support for the tourism industry, the consumption upgrade trend, and the anticipated absence of the coronavirus in 2021e.

According to the NBS data, China's domestic tourist arrivals and per capita tourism spending grew 8% and 2% y-o-y in 2019, respectively. We believe that the increase in tourist arrivals will remain the industry's major growth driver. According to the NBS, the tourism penetration rate among rural residents is around half of that among urban counterparts. We expect significant upside for China's overall level of tourism penetration, given the rising urbanisation rate and increase in per capita disposable income.

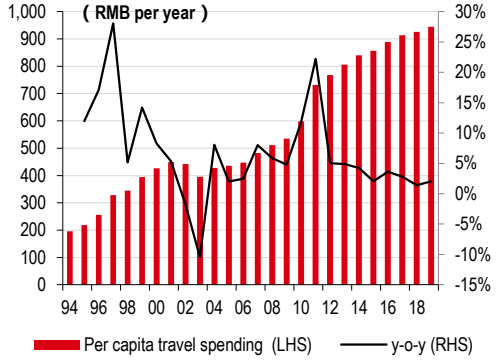
Domestic tourism revenue comes from a wide range of sources, such as transportation, accommodation, catering, visits to resorts and shopping. In this report, we focus on resorts and hotels as we believe these two sub-sectors will benefit from the increase in domestic tourist numbers and per capita tourism spending.

Exhibit 1. Changes in domestic trips in China



Source: NBS, HSBC Qianhai Securities

Exhibit 2. Per capita spending on domestic tourism in China



Source: NBS, HSBC Qianhai Securities

The hotel industry

Although not as developed as in western markets, China's hotel industry is now relatively mature after a period of rapid expansion. Euromonitor estimates it will grow at a CAGR of 4% over 2019-24. We believe this relatively modest growth rate disguises that fact that the country's massive consumer base can drive much faster expansion of the mid-market hotel market, with demand led by business trips, tourism, the growth of branded hotel chains, and consumer aspirations to stay in comfortable yet affordable rooms.

The key performance metric is revenue per available room, or RevPAR

The key industry performance metric is revenue per available room, or RevPAR. It is calculated by multiplying a hotel's average daily room rate (ADR) by its occupancy rate (OCC). We see slower growth in the number of hotels in China, suggesting that the period of aggressive expansion has temporarily come to an end. Consumer upgrades and the resulting higher RevPAR have become the hotel industry's major growth drivers.

Consumption upgrade will help the mid-end chain hotel market grow rapidly

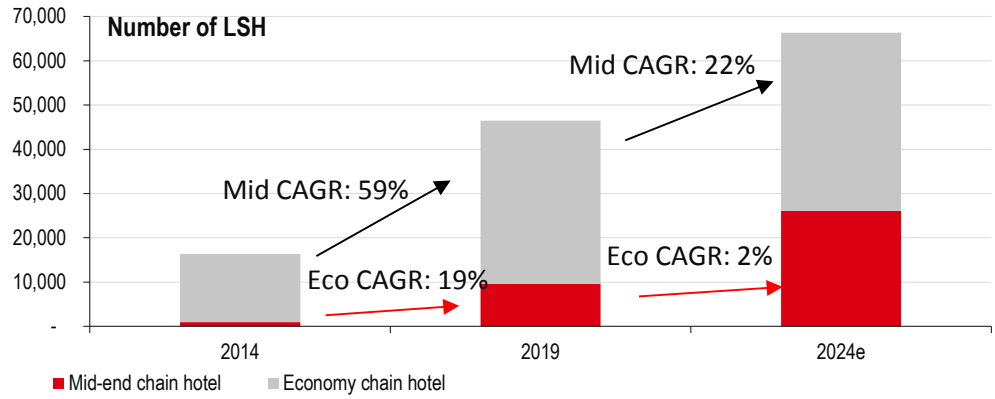
The current structure of China's hotel industry features an oversupply of luxury hotels, insufficient numbers of mid/high-end hotels, and a balanced yet abundant supply of economy hotels.

Despite the slower growth in total hotel numbers, we see structural opportunities for limited service hotels (LSH), especially those run by hotel chains. We estimate the number of mid-end chain hotels will increase at a 22% CAGR over 2019-24e, much higher than the rate for economy hotels. From the supply side, there are two reasons for this:

- Hotel groups are upgrading their existing economy hotels in response to the shift in market demand towards mid/high-end hotels.
- Amid intensifying competition, there is huge demand among many standalone hotel owners to join established hotel chains on a franchise basis. There are still a lot of standalone hotels and chain hotel rooms account for only 26% of the hotel industry in China, vs over 60% in developed markets, according to the industry consultancy Inntie.

This should allow the large hotel operators to improve their room mix, improving margins, profits and market share.

Exhibit 3. The number of LSH (economy/mid-end chain hotels) and forecasts



Source: Inntie, HSBC Qianhai Securities estimates

Mid-end chain leaders are likely to benefit from the industry trough

We believe that the growth of leading mid-end chain players will rely on their brand building ability and improvements in the industry cycle. This is a cyclical sector due to the heavy upfront capex involved and long payback period. As a result of the recent macroeconomic slowdown, the performance of the overall hotel industry has declined since 2018, with growth of industry revenue falling to 5% in 2019, according to Euromonitor.

We think the industry is set to bottom out

But we think the industry is set to bottom out, especially once the impact of the coronavirus outbreak is behind us. In fact, the pandemic should help industry leaders find new opportunities for market consolidation as smaller operators struggle to recover. In our view, big hotel companies with a franchise system or established brand will become stronger, increasing the pace of industry consolidation. Leading hotel players should benefit from:

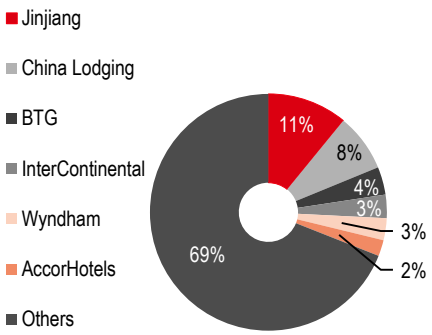
- **Robust demand for mid/high-end hotels.** The increasing per capita income will boost RevPAR growth as people take more vacations, and spend more money on holiday and on business trips.
- **Acceleration in market consolidation.** Leading players will likely gain more market share, backed by their wide range of brands, advanced IT platforms and integrated membership systems.
- **The franchise model.** In China, more and more hotels now operate under franchise arrangements as leading hotel players shift towards an asset-light business model to reduce the impact of the industry cycle. Given the substantial growth potential of the brand franchise model, we believe its increasing penetration will drive up the profit margins of the top brands.

We prefer Jinjiang Hotels for its scale advantage and premiumisation

We like Jinjiang Hotels as it has the largest number of hotels across the country as well as more mid-end hotels than peers both in absolute terms and as a percentage of the total.

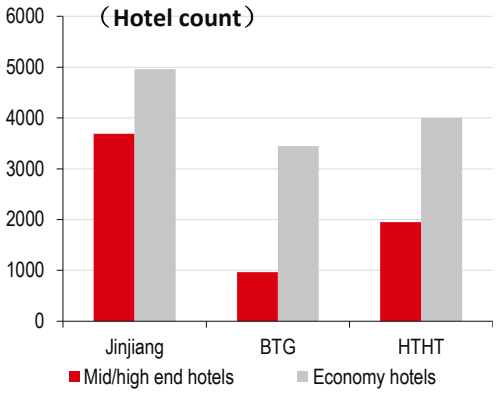
Domestic hotel leaders are trading at an average of 24.6x 2021e PE, in comparison to an average of 26.8x for international leaders (Bloomberg). We believe domestic hotel leaders deserve a valuation premium, given their much greater growth potential than international peers.

Exhibit 4. Value share of leading players in the mid-end hotel market (23% for the top three, 2019)



Source: Euromonitor, HSBC Qianhai Securities

Exhibit 5. Hotel numbers – Jinjiang and BTG (end 1Q20)



Source: Company data, HSBC Qianhai Securities

Initiating coverage on two hotel leaders and a tourism leader

Jinjiang Hotels (600754 CH, Buy, TP RMB49.00)

Founded in 1994, Jinjiang Hotels is a well-established state-owned enterprise based in Shanghai. In 1996, the company launched the brand "Jinjiang Inn" to tap into the limited service hotel (LSH) market. In the past few years, Jinjiang acquired Louvre Hotels Group, Plateno Group and Vienna Hotels Group. As of end-2019, Jinjiang owned 8,514 hotels, of which 7,221 are in mainland China. The company's chain hotels now cover 31 provinces in China and 65 overseas countries and regions.

Jinjiang enjoys strong scale and brand advantages

Jinjiang enjoys strong scale and brand advantages. As of end-2019, the number of guest rooms had reached 845,177, ranking it first in China. According to Euromonitor, Jinjiang's mid-end and budget hotels had the largest market share of 11% and 20% in China by sales, in 2019. The company has an asset light business model. The industry-leading ratio of franchised hotels (87% of total rooms) supports earnings during industry troughs and, as Jinjiang continues to expand its franchise business, this will create further growth opportunities.

We estimate 2019-22e revenue and attributable net profit to grow at CAGRs of 7% and 15%. Considering the scale advantages and strong middle-end brands mix, we expect the company to benefit from the rising share of franchised mid-end hotels and increase in market share. We initiate coverage with a Buy rating.

BTG Hotels (600258 CH, Hold, TP RMB19.00)

Headquartered in Beijing, state-owned BTG Hotels was founded in 1999 and listed on the Shanghai Stock Exchange in June 2000. The company's business model has changed. In 2014 travel services generated 95% of total revenue. The following year it divested its travel services business and switched the focus to hotels.

In 2016, it expanded into the economy hotel industry by acquiring Home Inns, one of the biggest economy hotel brands which was then delisted from the NASDAQ. This made the company the second largest hotel operator in China at the time.

BTG Hotels is ranked No. 3 in economy and mid-end hotel market share in China, based on sales revenue. The main brand *Home Inns* is China's No.2 economy brand based on room numbers. Its strategy is to gradually increase the proportion of mid-end LSH hotels.

BTG Hotels is one of the Top 3 hotel leaders in China, owning China's No.2 brand based on room numbers. It is also the No.3 in economy (16%) and mid-end hotel market share (4%), based on sales revenue. As at end-2019, BTG Hotels had 4,450 hotels, of which 81% were franchised and 19% directly operated. With a strategy of gradually increasing the proportion of mid/high-end hotels, the company is penetrating the mid-end market via its strong brands like Yitel and Home Inn Plus, upgrading existing economy brand *Home Inn* (to NEO3.0) and developing a new mid/high-end brand with Hyatt.

We forecast CAGRs of 7% and 9% for revenue and attributable net profit over 2019-22e. As it owns China's leading economy chain brand, Home Inns, the company is a leading player in the LSH industry. However, its larger share of self-operated and economy hotels means it is more exposed to an industry down-cycle. We initiate coverage with a Hold rating.

CYTS (600138 CH, Hold, TP RMB12.00)

The jewels in the crown that drive profits are two themed resorts built around ancient towns

China CYTS Tours was founded and listed in 1997. Beijing based, the company's actual controller was the Central Committee of the China Communist Youth League, but after an equity transfer in 2018, the company is now controlled by China Everbright Group and the actual overall controller is the State Council.

CYTS has four main revenue streams – a travel agency, integrated marketing services (exhibition business), resort operations, and hotels – as well as a strategic investment business. The jewels in the crown that drive profits are two themed resorts built around ancient towns, Wuzhen and Gubei that have been turned into tourist attractions. Core tourist attraction Wuzhen (the company has a 66% stake) contributed 80% of the after-tax profit in 2019.

We estimate revenue and attributable net profit CAGRs of 4% and 8% over 2019-22e. We believe Wuzhen and Gubei will benefit from rising per capita tourism consumption. However, given the low earnings contribution from the other business segments, the long investment cycle of new resorts and uncertainties about reopening, we initiate coverage with a Hold rating.

Exhibit 6. LSH leaders – business breakdown

	2019 revenue (RMBm)	Owned hotel revenue contribution %	Manachised* hotel revenue contribution %	Other business	Mid-to-high-end room number	Economy room numbers	Mid-to-high-end room as % of total
Jinjiang	15,099	59%	39%	2%	424,088	421,089	50%
BTG Hotel	8,311	76%	19%	5%	108,462	306,490	26%
	Major mid-end brands						
Jinjiang	Jinjiang Metropolo, Lavande, Coffetel, Vienna, Golden Tulip						
BTG Hotel	Yitel, Home Inn Plus, Home Inn Selected						

Source: Company data, HSBC Qianhai Securities. *"Manachised" is an industry term covering both managed and franchised hotels.

Exhibit 7. Ratings and TPs

Company	Ticker	Mkt Cap (USDm)	CP (RMB)	TP (RMB)	Rating	Upside	PE 2020e	PE 2021e	PE 2022e	EPS CAGR% 19-22e	PEG 21e
Jinjiang-A	600754 CH	4,815	39.88	49.00	Buy	23%	62.8	27.9	23.3	14.5	1.9
BTG H.	600258 CH	2,569	18.20	19.00	Hold	4%	223.3	19.3	15.8	8.6	2.2
CYTS	600138 CH	1,082	10.45	12.00	Hold	15%	63.6	11.5	10.7	7.7	1.5

Source: Wind, HSBC Qianhai Securities estimates. CP = current price, as at 28 July 2020.

Our estimates vs. market consensus

Our estimates on 2020e net profit of three companies are generally below consensus, as we foresee stronger COVID-19 impacts on travel and hotel industry this year. Our estimates on 2021-22e revenue for the two hotel companies are generally higher than consensus as we are more bullish on their market expansion, as we think the pandemic could accelerate market concentration.

Exhibit 8. HSBC Qianhai Securities estimates vs. consensus

		HSBC Qianhai estimates			Market consensus			Diff.		
	RMBm	2020e	2021e	2022e	2020	2021	2022	2020e	2021e	2022e
Jinjiang	Revenue	12,412	17,117	18,540	12,752	16,120	17,053	-3%	6%	9%
	Attributed net profit	608	1,368	1,640	670	1,328	1,520	-9%	3%	8%
BTG	Revenue	4,908	8,987	10,146	6,463	8,417	8,834	-24%	7%	15%
	Attributed net profit	81	929	1,134	179	980	1,120	-55%	-5%	1%
CYTS	Revenue	8,941	14,282	15,660	10,635	14,515	15,751	-16%	-2%	-1%
	Attributed net profit	119	655	710	322	630	725	-63%	4%	-2%

Source: Wind, HSBC Qianhai Securities estimates

Exhibit 9. Share price performance of Jinjiang and BTG (RMB)

Source: Wind, HSBC Qianhai Securities

Exhibit 10. Share price performance of CYTS (RMB)

Source: Wind, HSBC Qianhai Securities

Exhibit 11. Peer comparison – hotel sector

Company	Ticker	Market Cap	ADTV	CP	TP	Rating	PE			Dividend yield (%)			EV/EBITDA			EPS CAGR	PEG
7/28/2020		(USDm)	(USDm)	(LC)	(LC)		2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	19~22e	21e
Global leader																	
Hilton	HLT US	21,443	290	77			85.3	31.0	22.1	0.2	0.4	0.5	30.4	17.3	14.1	-3.5	n.m.
Hyatt	H US	4,999	59	49			n.m.	n.m.	99.7	0.4	0.9	1.2	61.3	14.1	10.5	n.m.	n.m.
Stay	STAY US	2,037	28	11			64.9	17.5	13.9	1.9	4.7	6.3	11.9	9.3	8.8	-4.6	n.m.
Wyndham	WH US	4,330	51	47			34.6	16.2	13.7	1.2	1.2	2.0	18.2	11.7	10.7	1.3	12.8
Intercon.	IHG LN	8,530	33	3,625			73.7	21.9	16.9	0.5	2.0	2.4	36.0	18.9	15.7	-3.1	n.m.
Accor	AC FP	6,742	40	22			n.m.	47.3	21.5	0.7	2.8	3.2	n.m.	13.2	9.9	-5.9	n.m.
Average							**64.6**	**26.8**	**31.3**	**0.8**	**2.0**	**2.6**	**31.6**	**14.1**	**11.6**	**-3.1**	**12.8**
Median							**69.3**	**21.9**	**19.2**	**0.6**	**1.6**	**2.2**	**30.4**	**13.6**	**10.6**	**-3.5**	**12.8**
China leaders																	
GreenTree	GHG US	1,299	1	12.7			31.4	15.9	14.0	2.6	2.7	2.8	21.7	11.3	9.6	11.7	1.4
Huazhu	HTHT US	10,006	86	33.7			n.m.	35.3	26.1	1.0	1.0	1.1	n.m.	25.4	20.8	21.6	1.6
Jinjiang-A*	600754 CH	4,815	30	39.9	49.0	Buy	62.8	27.9	23.3	0.8	1.9	2.3	21.8	11.9	10.9	14.5	1.9
BTG*	600258 CH	2,569	45	18.2	19.0	Hold	223.3	19.3	15.8	0.0	0.4	0.5	19.2	7.8	6.7	8.6	2.2
Average							**105.8**	**24.6**	**19.8**	**1.1**	**1.5**	**1.7**	**20.9**	**14.1**	**12.0**	**14.1**	**1.8**
Median							**62.8**	**23.6**	**19.6**	**0.9**	**1.4**	**1.7**	**21.7**	**11.6**	**10.3**	**13.1**	**1.8**

Source: Bloomberg, HSBC Qianhai Securities estimates for Jinjiang and BTG

Note: Jinjiang-A and BTG's PE is based on non-recurring net profit

Exhibit 12. Peer comparison – tourism sector

Company	Ticker	Market Cap	ADTV	CP	TP	Rating	PE			PB			ROE (%)			EPS CAGR (%)	PEG
7/28/2020		(USDm)	(USDm)				2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	19-22e	21e
CYTS*	600138 CH	1,082	28	10.45	12.00	Hold	63.6	11.5	10.7	1.1	1.0	1.0	1.8	8.9	8.9	7.7	1.5
International travel leader																	
Expedia	EXPE US	11,902	345	84.42			n.m.	33.1	13.9	3.9	4.3	3.6	n.m.	13.0	26.3	13.6	2.4
Ctrip	TCOM US	16,517	146	27.85			n.m.	21.8	16.7	1.2	1.1	1.1	n.m.	5.3	6.4	16.0	1.4
Disney	DIS US	210,087	1,819	116.31			89.3	37.1	21.8	2.4	2.3	2.2	2.7	6.2	10.0	n.m.	n.m.
Average							**89.3**	**30.7**	**17.5**	**2.5**	**2.6**	**2.3**	**2.7**	**8.2**	**14.2**	**14.8**	**1.9**
Median							**89.3**	**33.1**	**16.7**	**2.4**	**2.3**	**2.2**	**2.7**	**6.2**	**10.0**	**14.8**	**1.9**
General tourism																	
UTour Group	002707 CH	1,234	47	9.81			-258.8	59.1	56.7	3.6	3.4	3.3	-1.4	5.7	5.8	30.4	1.9
Caissa Tosun	000796 CH	1,775	58	15.45			169.4	46.5	47.8	4.7	3.5	2.7	2.8	7.6	5.6	27.4	1.7
Yunnan Tour.	002059 CH	843	9	5.82			79.6	18.1	13.9	na	na	na	na	na	na	65.0	0.3
Average							**-3.3**	**41.2**	**39.5**	**4.1**	**3.4**	**3.0**	**0.7**	**6.6**	**5.7**	**40.9**	**1.3**
Median							**79.6**	**46.5**	**47.8**	**4.1**	**3.4**	**3.0**	**0.7**	**6.6**	**5.7**	**30.4**	**1.7**
China resorts																	
Songcheng	300144 CH	6,917	72	18.49			65.7	30.1	25.0	4.8	4.2	3.7	7.3	13.9	14.6	13.0	2.3
Huangshan	600054 CH	909	7	8.71			46.2	16.9	15.5	1.4	1.3	1.3	3.1	8.0	8.1	6.3	2.7
Emei Shan	000888 CH	442	7	5.86			35.0	12.9	11.9	1.2	1.1	1.0	3.4	8.5	8.5	4.7	2.8
Average							**49.0**	**20.0**	**17.5**	**2.5**	**2.2**	**2.0**	**4.6**	**10.1**	**10.4**	**8.0**	**2.6**
Median							**46.2**	**16.9**	**15.5**	**1.4**	**1.3**	**1.3**	**3.4**	**8.5**	**8.5**	**6.3**	**2.7**

Source: Wind, HSBC Qianhai Securities for CYTS

Note: CYTS's PE is based on non-recurring net profit

Valuation and risks

		Valuation	Risks
Jinjiang Hotels 600754 CH **Buy**	Current price: **RMB39.88** Target price: **RMB49.00** Upside: **23%**	We are positive about the company's stable cash flow in the long term as a LSH leader. Therefore, we apply a DCF mode to value this stock. Our key assumptions include 7.0% of WACC and 2.0% of perpetual growth rate. We derive a target price of RMB49, implying 23% upside. Given the scale and brand advantages in LSH market, we initiate coverage with a Buy rating. **Joseph Zhou** | joseph.yj.zhou@hsbcqh.com.cn | +86 - 0755 - 8898 3401	**Key downside risks:** ◆ Weaker-than-expected performance of new brands ◆ Macro economy slowdown ◆ Unfavourable economic environment ◆ Rising cost ◆ Impairment of goodwill
BTG Hotels 600258 CH **Hold**	Current price: **RMB18.20** Target price: **RMB19.00** Upside: **4%**	From the long-term perspective, BTG Hotels should be able to generate stable cash flow as a leading economy hotel player. Therefore, we use DCF methodology to value the stock, with underlying assumptions including 9.6% WACC and 2.0% perpetual growth rate. Our target price of RMB19 implies 4% upside. We initiate at Hold. **Joseph Zhou** | joseph.yj.zhou@hsbcqh.com.cn | +86 - 0755 - 8898 3401	**Key upside risks** ◆ Better-than-expected performance by the new brands ◆ M&A ◆ Faster-than-expected SOE reform **Key downside risks** ◆ Weaker-than-expected performance of new brands ◆ Macroeconomic slowdown ◆ Force majeure ◆ Rising costs
China CYTS Tours 600138 CH **Hold**	CP: **RMB10.45** TP: **RMB12.00** Upside: **15%**	From the long-term perspective, earnings visibility is high and the pandemic only impacted the company in the near term. We therefore use PE to value the stock. We assign a 13x 2021e target PE to China CYTS Tours, about 1.5 SD below historical average. Based on RMB0.90 2021e EPS, we derive our TP of RMB12.00, implying 15% upside. Considering the limited synergies from the various business segments and given that the opening time of new projects is uncertain, we initiate coverage with a Hold rating. **Joseph Zhou** | joseph.yj.zhou@hsbcqh.com.cn | +86 - 0755 - 8898 3401	**Key upside risks:** ◆ Better-than-expected Wuzhen and Gubei revenue recovery ◆ Asset injection from the parent company to improve financial structure ◆ Faster-than-expected recovery of domestic and foreign tourism demand ◆ Easing scenic area competition pressure **Key downside risks:** ◆ Lower-than-expected Wuzhen and Gubei revenue recovery ◆ Intensifying scenic area competition ◆ Lower travel consumption willingness after the pandemic ◆ Force majeure of major epidemics and natural disasters

Source: HSBC Qianhai Securities estimates

Prices as of 28 July 2020

* Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

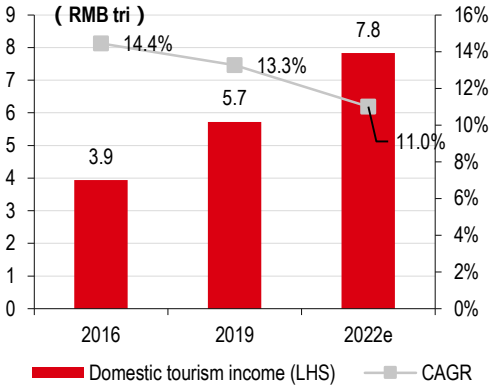
Industry analysis

- We expect domestic tourism revenue to grow at a CAGR of 11% over 2019-22e
- We expect sales of China's hotel industry to rise at a CAGR of 4% and we see a structural shortage in the mid-market
- We estimate the number of mid-end chain hotels to grow 22% in 2019-24e, benefitting industry leaders

The domestic travel industry is thriving

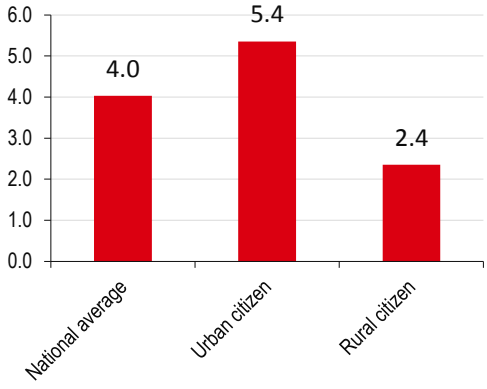
According to the National Bureau of Statistics of China (NBS), domestic tourism revenue totalled RMB5.7trn in 2019, up 11.6% y-o-y. During 2018-19, China's domestic travel market value maintained steady growth of c12%. As the country is stepping up its efforts to boost the travel industry as part of the initiative to upgrade domestic consumption, we expect to see a quick recovery from the pandemic, with 2019-22e domestic travel revenue rising at an 11% CAGR.

Exhibit 13. China's domestic tourism market size



Source: National Bureau of Statistics of China, HSBC Qianhai Securities estimates

Exhibit 14. China's resident travel rate



Source: National Bureau of Statistics of China, HSBC Qianhai Securities estimates

Travel rate per capita expected to grow

We think the increase in tourist trips is still the main industry growth driver. According to the NBS, the number of domestic tourists grew 8.4% y-o-y to 6.01bn, while annual travel expenses per capita grew 2% y-o-y to RMB945. The potential of tourism consumption is huge, especially in the cities. Travel rates of urban and rural residents were 5.4x a year and 2.4x a year.

Resorts benefit from stable tourist growth

According to the "China Tourism Scenic Resort Development Report" released by China Tourism Academy, sightseeing is still the key attraction. And a new trend that combines sightseeing with vacation tours is emerging, which should benefit the scenic resort business.

Quality scenic resorts are scarce. At the end of 2019, the number of A-grade scenic spots grew just 4% y-o-y to 12,402, while annual total tourist visits to scenic areas grew 7.5% y-o-y to c6.5bn. We think companies with quality attractions will benefit from the rapid growth of the travel industry in the long term.

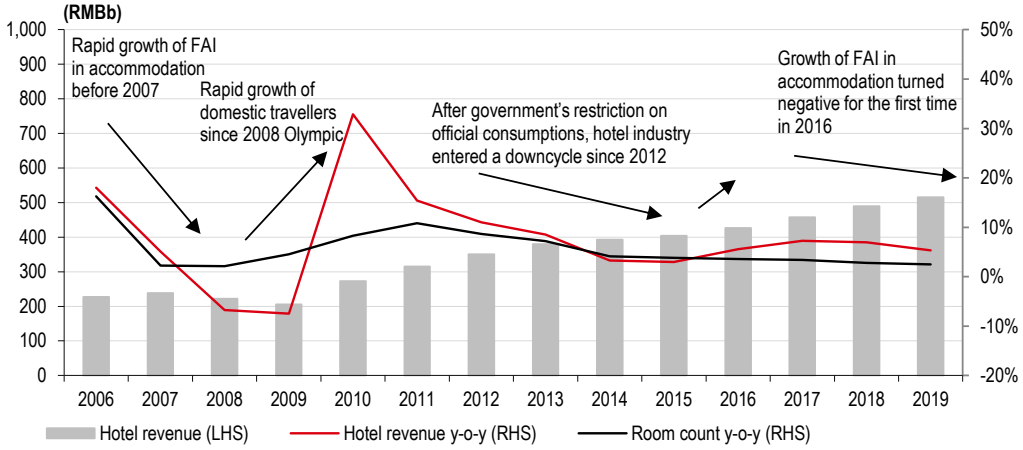
Undersupply in the mid-end hotel market

We expect the overall hotel industry growth to slow to 4% over 2019-24e

The overall hotel industry is at a mature stage…

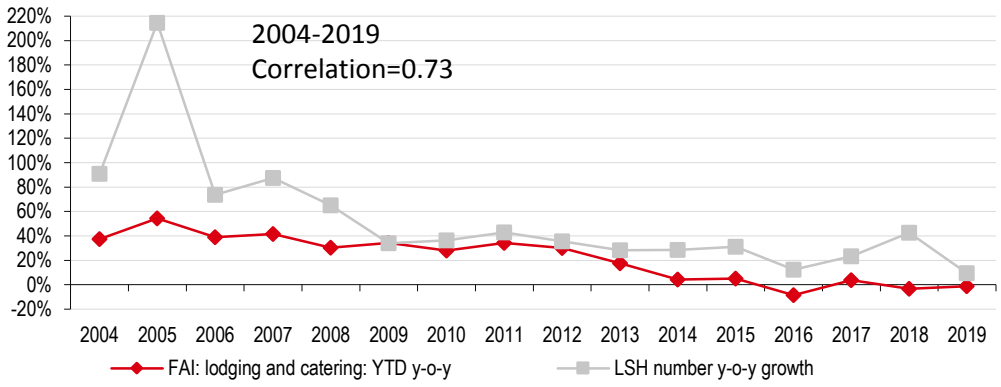
Demand mainly comes from business and travel. According to Euromonitor, the retail market size of China's hotel industry was RMB515.6bn in 2019, up 5% y-o-y. We expect a 4% CAGR in 2019-24e, driven by consumption upgrades and spending per room. Growth in fixed asset investment of lodging and catering, which is strongly correlated to the growth in the number of LSHs, turned negative for the first time in 2016 and has since remained flat. In our view, China's hotel industry has entered a relatively mature phase and the growth of overall hotel numbers has slowed.

Exhibit 15. Historical trend of overall hotel rooms



Source: Euromonitor, HSBC Qianhai Securities

Exhibit 16. Fixed asset investment growth of lodging and catering vs growth of LSH



Source: Euromonitor, Wind, HSBC Qianhai Securities

However, we see structural growth opportunities

We now look at the structure of the hotel industry by category. In addition to starred hotels and unrated hotels, chain groups usually divide their hotels into **FSH** (full-service hotels) and **LSH** (limited-service hotels). China's FSH market is dominated by foreign investment, while the LSH market (mid-end chain and budget chain hotels) is dominated by leading Chinese hotels.

FSH: Apart from accommodation, catering, meeting, leisure and entertainment functions are available. **LSH:** Provides basic accommodation and catering, with a focus on operational efficiency.

Exhibit 17. Number of hotels by category

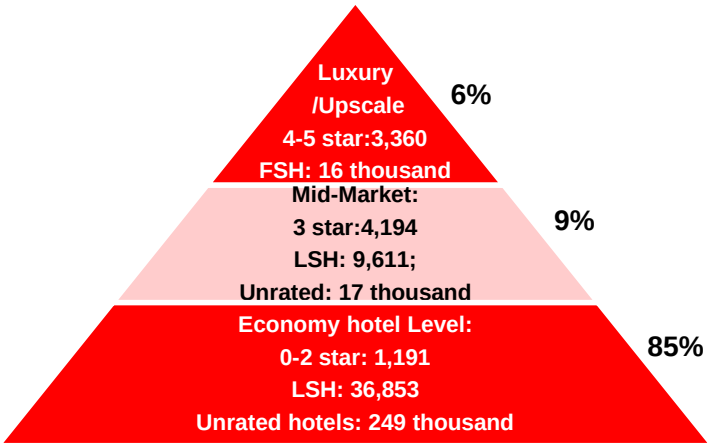
Category	2017	% of overall	2019	% of overall	Star rating	FSH/LSH
Luxury hotels	4,161	1%	4,029	1%	5 star	FSH
Upscale hotels	11,766	4%	15,261	5%	4 star	FSH/LSH
Mid-scale hotels	24,553	8%	31,283	9%	3 star	LSH
Economy hotels	248,493	86%	287,448	85%	0-2 star/unrated	LSH
Overall count	**288,973**	**100%**	**338,021**	**100%**		

Source: Inntie, CTHA, HSBC Qianhai Securities

Note: Limited-service hotel groups generally do not assess their hotels with a star system. 4-5 star hotels are basically full-service hotels.

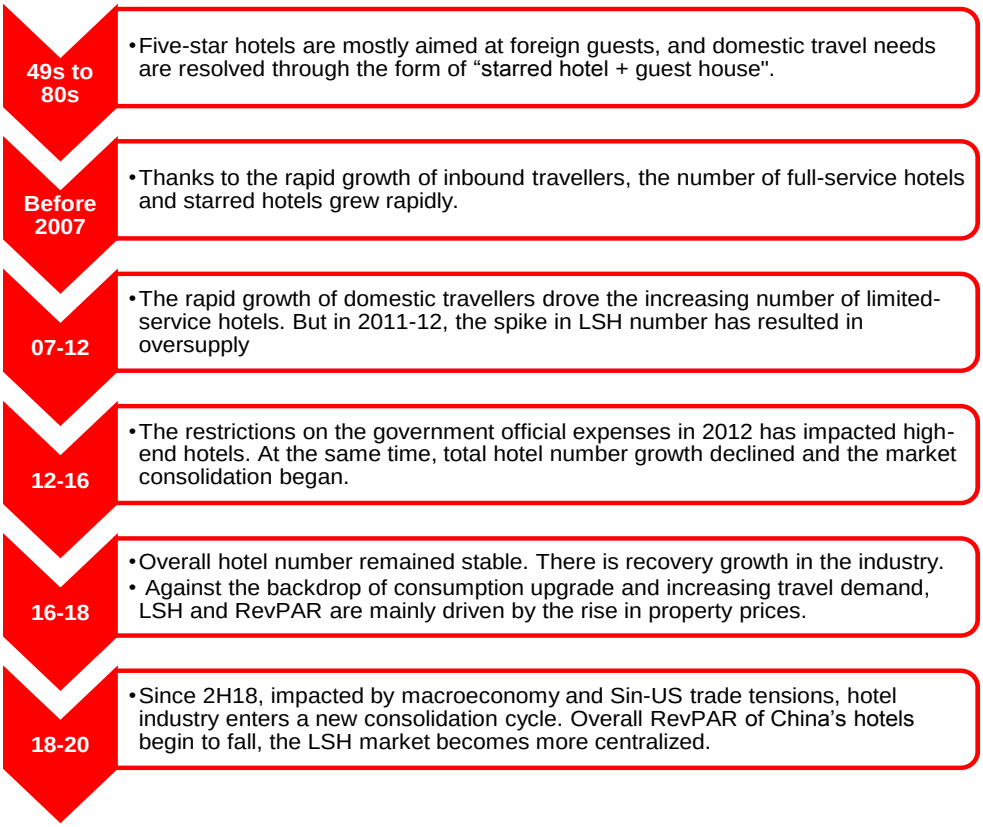
China's hotel industry has developed from the initial "five-star hotel + boarding house" dumbbell-shaped structure before 1980s to the current "pyramid" structure covering all price ranges. The high end is oversupplied, economy is basically balanced, and the mid-end is undersupplied. China's hotel industry is also cyclical, partly because of heavy upfront capex and unpredictable regional supply and demand.

Exhibit 18. Number of hotels by category – the pyramid structure in China



Source: Euromonitor, Inntie, China National Tourism Administration, HSBC Qianhai Securities

Exhibit 19. History of China's hotel market


49s to 80s
•Five-star hotels are mostly aimed at foreign guests, and domestic travel needs are resolved through the form of "starred hotel + guest house".
Before 2007
•Thanks to the rapid growth of inbound travellers, the number of full-service hotels and starred hotels grew rapidly.
07-12
•The rapid growth of domestic travellers drove the increasing number of limited-service hotels. But in 2011-12, the spike in LSH number has resulted in oversupply
12-16
•The restrictions on the government official expenses in 2012 has impacted high-end hotels. At the same time, total hotel number growth declined and the market consolidation began.
16-18
•Overall hotel number remained stable. There is recovery growth in the industry.
• Against the backdrop of consumption upgrade and increasing travel demand, LSH and RevPAR are mainly driven by the rise in property prices.
18-20
•Since 2H18, impacted by macroeconomy and Sin-US trade tensions, hotel industry enters a new consolidation cycle. Overall RevPAR of China's hotels begin to fall, the LSH market becomes more centralized.

Source: Euromonitor, Inntie, CTHA, HSBC Qianhai Securities

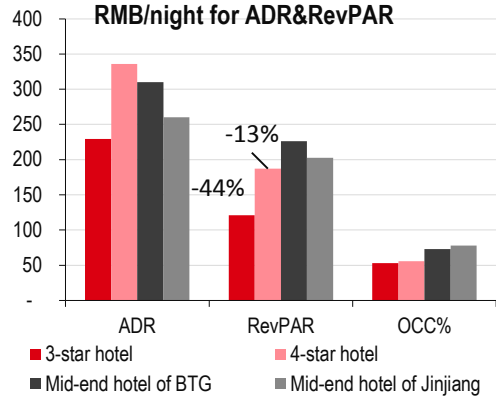
LSH brands are replacing starred hotels

The daily room prices of 2 to 3 star hotels are RMB200-300 on average

According to the National Tourism Administration, the number of traditional two- and three-star hotels decreased by 66% and 30% from 2012 to 2019, while LSH numbers increased. We think LSH is taking market share from starred hotels because the former model is more cost-effective and large hotel groups are absorbing standalone hotels. Note that:

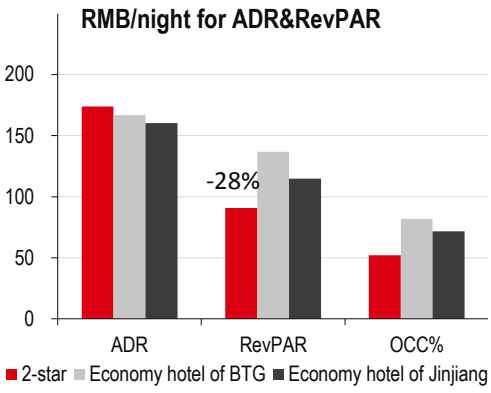
- Based on BTG and Jinjiang data, the RevPAR of three- and four-star hotels is 44% and 13% lower than their average mid-end LSH.
- For two-star hotels, which offer similar room prices as economy LSHs, RevPAR is 28% lower than LSH due to a lower occupancy rate.

Exhibit 20. Starred vs LSH: mid-end level (2019)



Source: CNTA, company data, HSBC Qianhai Securities

Exhibit 21. Starred vs LSH: economy-end level (2019)

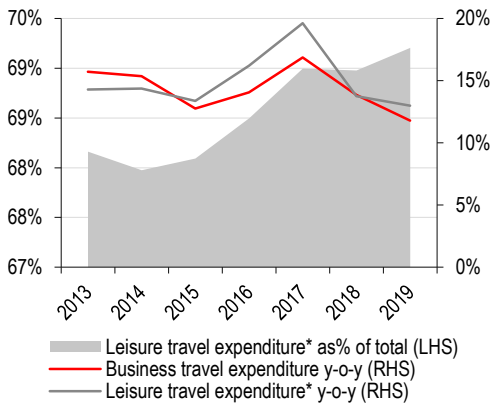


Source: CNTA, company data, HSBC Qianhai Securities

Generally, only air and rail trips create overnight lodging demand

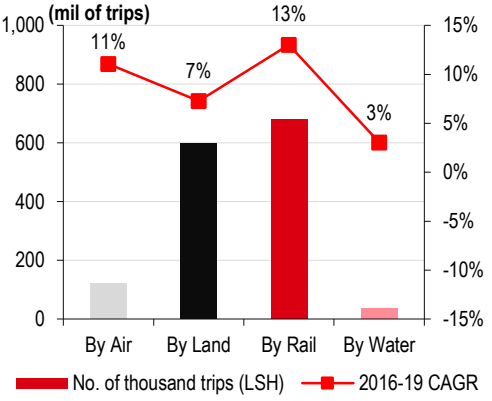
According to Euromonitor, domestic business and leisure expenditure (excluding shopping) recorded CAGRs of 14% and 15% over 2014-19, while leisure travel expenditure accounted for 69% of domestic travel expenditure in 2019. Among business trips, rail remains the most popular and also grew faster than air travel over 2016-19 (13% CAGR).

Exhibit 22. Travel expenditure breakdown by business and leisure category



Source: Euromonitor, HSBC Qianhai Securities

Exhibit 23. Number of trips by transport category

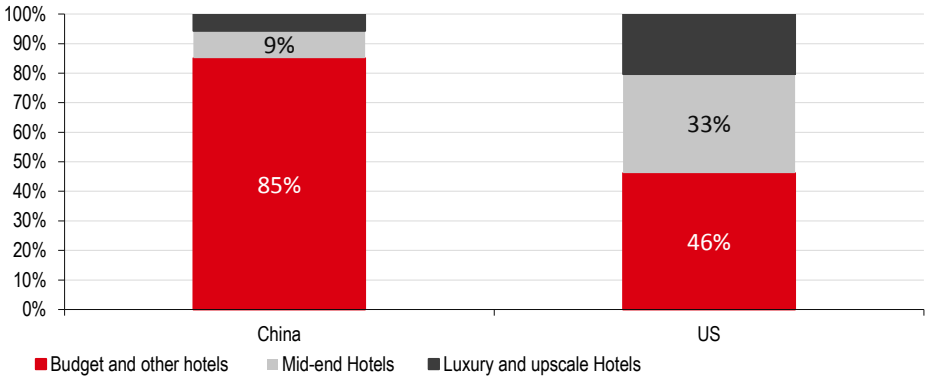


Source: Euromonitor, HSBC Qianhai Securities

There could be a spike in demand for mid- to high-end hotels; the proportion of mid-end hotels is only 9%

We think a comparison with the US provides a pointer for the direction of China's hotel market. According to Inntie, economy hotels (2-star and below, unrated hotels, economy LSH) account for 85% of total hotel numbers in China, vs 46% in the US (source: Euromonitor). We think the shift from low-end to mid- to high-end is the main driver of structural change in China's hotel industry. We estimate the proportion of China's mid-end hotels increased from 5% in 2012 to 9% in 2019, but is still much lower than the 33% in the US.

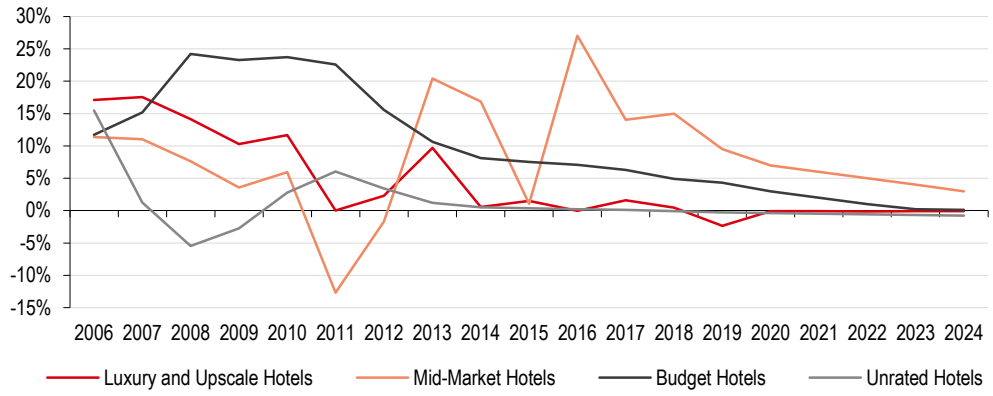
Exhibit 24. China and the US: hotels by category



Source: Inntie, Euromonitor, HSBC Qianhai Securities
*Note: We include unrated hotels in budget and other hotels.

According to Euromonitor, in China, the number of high-end/luxury, mid-end and budget hotels grew at annual average rates of 2%, 15% and 7% over 2012-19. The fast growth of mid-end hotel numbers highlights the robust demand for mid-end hotels, and we think the numbers in this category will increase at a CAGR of 7% over 2019-24e, driven by consumption upgrades.

Exhibit 25. Y-o-y growth in the number of hotels of all grades (including standalone single hotels)



Source: Euromonitor, HSBC Qianhai Securities

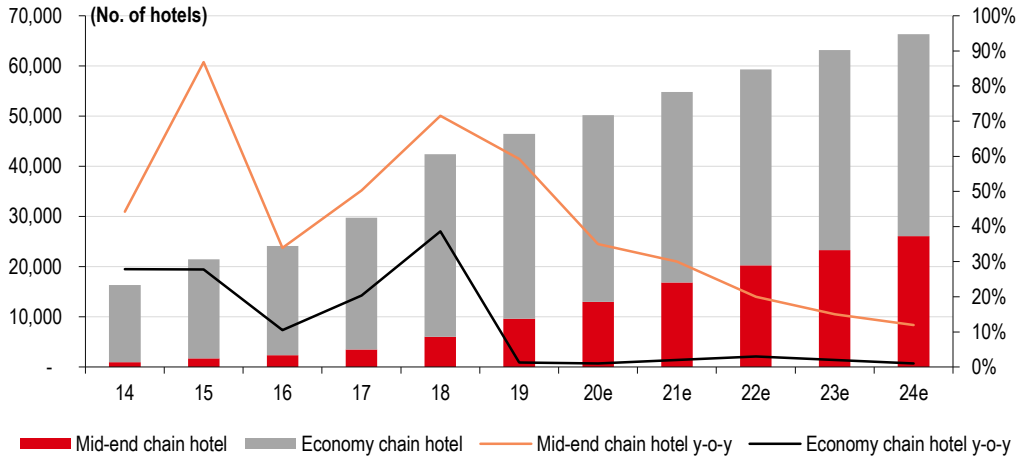
Higher penetration of chain hotels will boost industry consolidation

We estimate the number of mid-end chain hotels to grow at a 22% CAGR over 2019-24e
We are especially bullish on the outlook for mid-end chain hotels, as a result of increasing mid-end demand and the rise of LSH business. From the supply side, we believe that the mid-end chains will grow faster because:

- **Economy chain market is already large, but many to be upgraded:** The current number of economy chain hotels is about 4x that of mid-end chain hotels. Driven by mid-end demand, the leading LSH groups have all started to upgrade economy hotels for the mid-end market. For example, Jinjiang transformed Jinjiang Inn into a mid-end hotel by introducing the Campanile brand.
- **Transfer from standalone hotels.** There are still plenty of standalone hotels in China but we think the number will continue to fall as they absorbed by large chains. Mid-end hotel brands are the most sought after as a result of changing lifestyles and the growing middle class.

Based on Inntie data, we estimate the total number of LSHs will grow 8% y-o-y to 50,200 as of end 2020, with the number of LSH rooms rising 9% y-o-y to 3.7m. Of the 50,200, we estimate 26% are mid-end chain hotels.

Exhibit 26. China's LSH numbers and estimates



Source: Innitie, CTHA, HSBC Qianhai Securities estimates

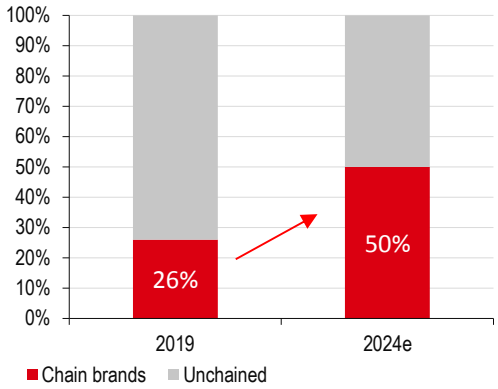
We estimate the number of LSH – economy chains and mid/high-end chains – will expand at a CAGR of 7% over 2019-24e. But we see a big difference between categories – mid-end chains 22% vs 2% for economy chains.

Higher penetration of chain hotels the major industry driver

Hotel chains lead to a higher degree of standardisation, more efficient hotel management and a better guest experience. But China's hotel brands are fragmented, with a ratio of only 26% vs over 60% in developed countries. We expect this to rise to c50% in China by 2024e.

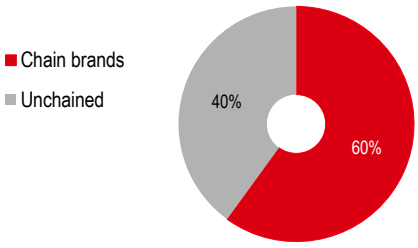
According to Innitie, in 2019, the hotel chain ratio by rooms in tier-1 cities was 38%, followed by tier-2 and -3 (28%) and other cities (tier-4 and -5) 17%. The pace of increase has been fastest in tier-1 cities, supported by a large amount of small hotels which have been upgraded. For tier-3 to -4 cities, the penetration of hotel chains has just begun so there is a great deal of room for growth.

Exhibit 27. China hotel chain rate



Source: Inntie, CTHA, HSBC Qianhai Securities estimates

Exhibit 28. Developed country chain rate (2019)



Source: Inntie, CTHA, HSBC Qianhai Securities

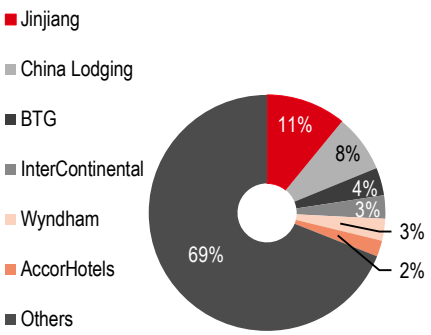
Leaders gain share in LSH market

The rising penetration of hotel chains is positive for the market leaders. Among China's big three, Jinjiang owns 8,514 hotels (overseas included), Beijing Tourism Group 4,450 and Huazhu 5,618. And their hotel pipelines are all growing in 2020.

The mid-end market share by sales of the top three LSH leaders' rose to 23% in 2019 from 12% in 2016. In the economy market, the top three's share stabilised at 50-60%.

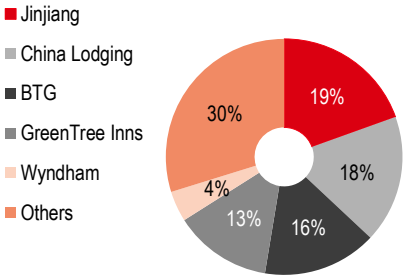
Driven by the number of new hotels and increasing brand awareness among consumers, we think the low- and mid-end LSH markets should further consolidate, with the leading companies growing their market share.

Exhibit 29. Market share of mid-end hotel sales (2019)



Source: Euromonitor, HSBC Qianhai Securities

Exhibit 30. Market share of economy hotel sales (2019)



Source: Euromonitor, HSBC Qianhai Securities

Industry leaders raise profit margin with asset-light model

Owing to the high level of initial investment, the return cycle in the hotel industry is relatively long. We think the profit margin of directly operated hotels is relatively low and they are more subject to economic fluctuations, so the results are more volatile.

This is why an asset light business model makes sense. Hotel groups benefit from receiving a higher percentage of recurring revenue from franchisees, with much less operational and financial risk or upfront costs. The operating margin under the franchise and “manachised” models is also higher. (Manachised is an industry term covering both managed and franchised hotels.) Under this model, management personnel and IT services are provided to the managed hotel for the payment of a management fee. We think hotel enterprises with asset light models are better placed to manage fluctuations in the business cycle.

Exhibit 31. Operation and management business of LSH

Business model	Description	Impact by cycles	Hotel-level profit margin (Jinjiang as an example, sales and platform fees included)
Self-operated model	Use a specific brand under the company to independently operate a hotel with a self-owned or leased property, bear the costs of rent/amortisation, labour, and energy consumption.	More impacted	20-25%
Franchised model	The company allows the permitted hotels to use the brands, registered trademarks, operation methods, operating procedures and other operation resources owned by the company within an agreed period, and charges franchise fees. Franchisees are responsible for the costs of rent/amortisation, labour, and energy consumption. The lease generally lasts 8-10 years or over 10 years. The management fee is 5-12% of the hotel revenue	Less impacted	60-75%
Manachised model	The company provides the management model, service specifications, quality standards, management personnel, and IT services to the managed hotel and charges management fees and other fees. Lower management fees are charged.	Less impacted	60-70%

Source: HSBC Qianhai Securities

Under the franchise model, hotel brand companies charge management fees based on the turnover of franchisees. They can achieve higher operating margin due to lower cost (see Exhibit 31 for details).

Tourism and hotel sectors to rebound post COVID-19

This is going to be a tough year

2020 inbound tourism income to drop 21% y-o-y

This is going to be a tough year. According to the China Tourism Academy, domestic trips will fall 56% in 1Q20 and 15.5% in 2020. This will result in inbound tourism income falling 69% in 1Q and 20.6% in 2020, with tourism income dropping by RMB1.18trn y-o-y. Despite the damage caused by COVID-19, we expect the industry to recover quickly and forecast that tourism income in 2021e will return to 2019 levels.

1Q20 hotel firm registration number dips 38% y-o-y; sector consolidation accelerating

According to the China Hotel Association, from January to February 2020, 74% of hotels and home-sharing hosts halted their businesses, with an average closure period of 27 days. Only 66,000 new hotel companies were registered in 1Q20, down 38% y-o-y and a 5-year new low; 13,000 hotel-related companies have deregistered or had their business licences revoked.

We expect hotel demand to recover to a normal level when the COVID-19 pandemic is over. We think this crisis will also accelerate the pace of industry consolidation as smaller operators struggle to recover. In addition, more independently operated hotels will join brand franchises to benefit from superior management, marketing and IT resources.

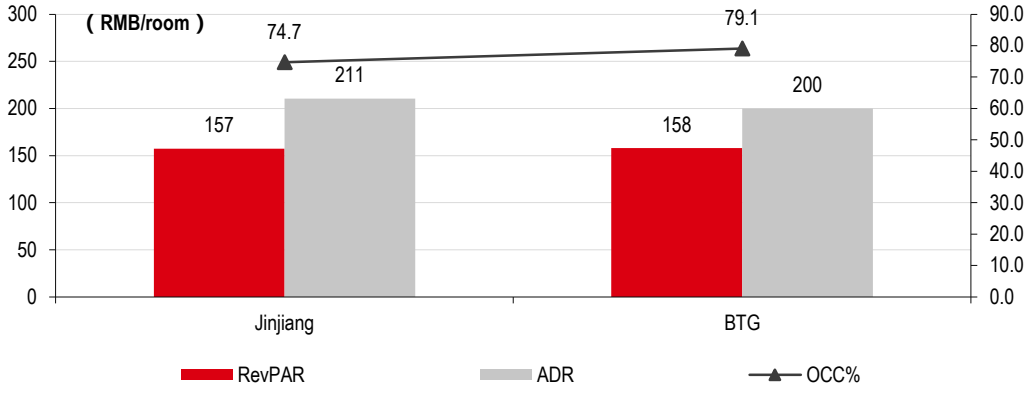
Peer comparison

Benefiting from consumption upgrade, Jinjiang and BTG see huge RevPAR upside

Hotel revenue is mainly determined by RevPAR, guest room numbers and scale. The average daily rate (ADR) is a revenue indicator driven by brand positioning and occupancy rate.

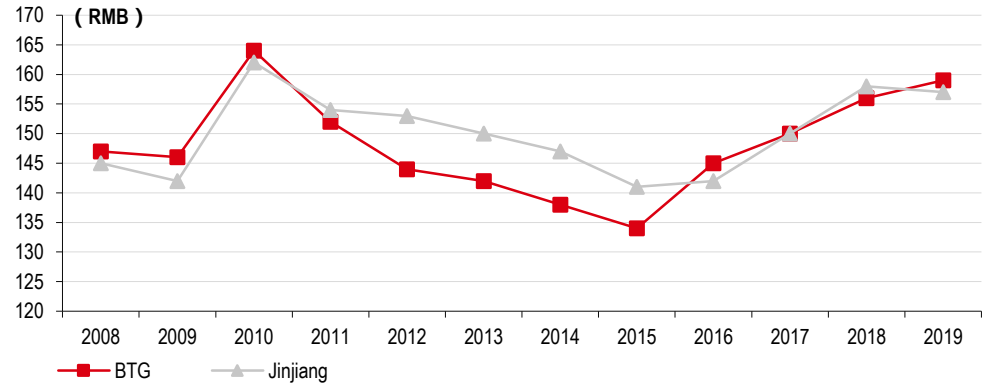
Jinjiang Hotels raised its ADR by acquiring a number of mid-end market brands during 2015-17. Despite the lower occupancy rate given, which has been weighed down by the sector cycle, Jinjiang and BTG see ample room for improvement in RevPAR. The following charts compare the two companies on a range of metrics.

Exhibit 32. Jinjiang and BTG RevPAR breakdown



Source: Company data, HSBC Qianhai Securities

Exhibit 33. Jinjiang and BTG RevPAR trend



Source: Company data, HSBC Qianhai Securities

Exhibit 34. Jinjiang vs BTG: financial data

	Jinjiang 2017	Jinjiang 2018	Jinjiang 2019	BTG 2017	BTG 2018	BTG 2019
Hotel count	**6,694**	**7,443**	**8,514**	**3,712**	**4,049**	**4,450**
Self-operated	1,055	1,012	989	963	925	851
Manachised	5,639	6,431	7,525	2,749	3,124	3,599
Manachising ratio	**84%**	**86%**	**88%**	**74%**	**77%**	**81%**
Mid/high-end	1,664	2,463	3,563	503	720	945
Economy	5,030	4,980	4,951	3,209	3,329	3,505
Mid/high-end ratio	**25%**	**33%**	**42%**	**14%**	**18%**	**21%**
Unopened hotels in pipeline	2,675	3,455	4,544	488	530	660
YoY		29%	32%		9%	25%
Blended RevPAR	150	158	157	150	156	158
- Mid/high-end RevPAR	215	216	203	250	238	230
- Economy RevPAR	125	124	115	140	143	137
Revenue (RMBm)	13,583	14,697	15,099	8,417	8,539	8,311
Self-operation	10,084	9,265	8,960	6,677	6,655	6,279
Manachised	3,215	5,072	5,722	1,295	1,434	1,582
Others	283	360	417	444	450	450
Company EBITDA	3,041	3,327	3,435	2,140	2,329	2,240
Pre-tax profit	1,277	1,564	1,759	1,001	1,286	1,277
Attributable net profit	882	1,082	1,092	631	857	885
Margins						
Pre-tax margin	9%	11%	12%	12%	15%	15%
EBITDA margin	22%	23%	23%	25%	27%	27%
Attributable margin	6%	7%	7%	7%	10%	11%
Growth						
- Hotel number		11%	14%		9%	10%
- Guest room number		13%	15%		3%	4%
Revenue		8%	3%		1%	-3%
EBITDA		-8%	-3%		0%	-6%
Attributable net profit		58%	13%		11%	10%

Source: Company data, HSBC Qianhai Securities

Exhibit 35. Comparison of the hotel operating segment in domestic leaders

(RMBm)	Jinjiang 2017	Jinjiang 2018	Jinjiang 2019	BTG 2017	BTG 2018	BTG 2019	Huzhu 2017	Huzhu 2018	Huzhu 2019
Hotel business P&L									
Net Revenues	**13,183**	**14,303**	**14,684**	**7,917**	**8,033**	**7,809**	**8,229**	**10,063**	**11,212**
% mix breakdown									
Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%
Hotel operating costs	66%	68%	69%	83%	81%	81%	69%	64%	64%
Rents	14%	13%	13%	23%	22%	23%	25%	24%	23%
Utilities	6%	5%	5%	6%	6%	5%	4%	4%	4%
Labor	21%	22%	24%	27%	27%	26%	17%	17%	17%
D&A	8%	8%	8%	11%	10%	10%	9%	9%	9%
Consumables	6%	7%	6%	8%	9%	10%	7%	7%	7%
Other hotel costs	12%	13%	13%	8%	7%	7%	7%	5%	5%
Selling exp ratio	6%	6%	7%	2%	2%	3%	3%	3%	4%
Admin exp ratio	16%	16%	14%	2%	3%	3%	8%	8%	9%
Other HQ costs	0%	0%	0%	2%	2%	2%	3%	3%	5%
Overall hotel operating costs	89%	90%	89%	89%	89%	89%	84%	79%	82%
Margins									
Hotel operating margin	33.9%	32.2%	31.1%	17.1%	19.0%	19.3%	31.0%	35.6%	35.9%
Backstage exp ratio	22.7%	22.3%	20.3%	6.1%	7.6%	8.0%	14.6%	14.6%	18.2%
Overall hotel margin	11.2%	9.9%	10.9%	11.0%	11.4%	11.2%	16.5%	21.0%	17.6%

Source: Company data, HSBC Qianhai Securities

Note: BTG Hotels' operating cost breakdown is our estimates based on company's selling exp breakdown and admin exp breakdown.

Experience from developed markets: Franchising mode and membership prevails

Leading overseas hotel operators usually have more brands to cater for different needs, with a focus on mid-to-high end and luxury hotels in a number of different countries. Leading hotel companies in China target mid-end and budget hotels.

From a growth perspective, overseas hotel leaders are largely at a mature stage and execute a multi-brand strategy. In comparison, China's hotel market experienced its first round of brand M&A and integration a few years ago. The top three players are expanding their franchising business, and we think there is ample room for long-term growth.

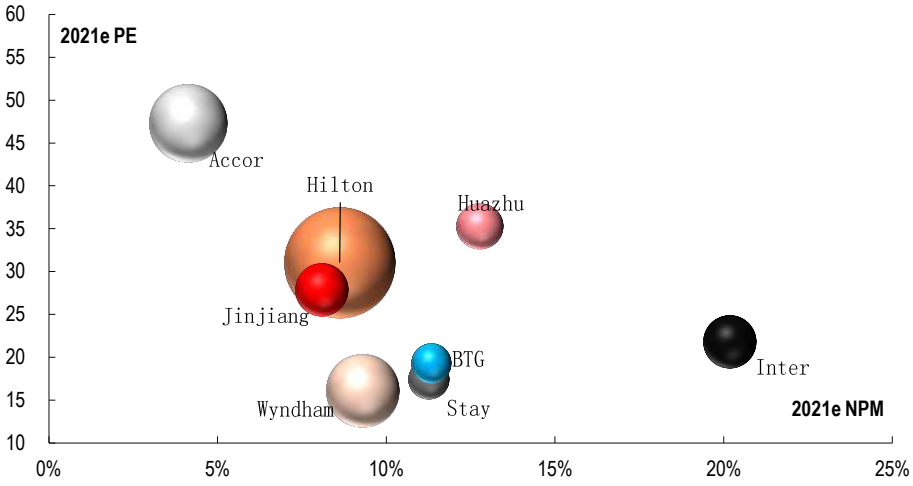
In line with the best practices of industry leaders elsewhere, LSH leaders in China are now integrating their membership platforms to drive growth. Jinjiang Hotels' member numbers hit 199m by end-2019, an increase of 10% y-o-y.

Jinjiang Hotels deserves valuation premium vs. global peers

China's leading hotel companies are mostly operating LSH and benefit from franchising revenue growth and product mix upgrades. Based on our estimates, Jinjiang Hotels is trading at a 28x 2021e PE, slightly higher than the average of international peers. Compared with Jinjiang, BTG Hotels, with a higher share of self-owned or managed hotels, is more exposed to earnings downside risks at the sector trough, and has a higher PEG than Jinjiang.

The 2021e PE of global hotel leaders averages 26.8x. Jinjiang Hotels, as China's leading LSH player with the largest room scale in China, enjoys significantly higher growth than global peers, and in our view deserves a valuation premium.

Exhibit 36. Bubble chart of hotel peers (2021e PE vs 2021e NPM)



Source: Bloomberg for non-rated companies, HSBC Qianhai Securities for Jinjiang and BTG; Bubble size represents for 2019a revenue

We use EV/EBITDA as a cross check

As hotel investment requires heavy initial capital expense and long-term amortisation over the initial investment capital, EV/EBITDA can be applied to value hotel asset operators and asset-light hotel operators. We look at EV/EBITDA valuations as a cross-check to our actual valuation methodologies (DCF for the hotel operators, PE for CYTS).

China's hotel leaders are trading at 14x 2021e EV/EBITDA on average (based on Bloomberg and our estimates), vs. 14x (on consensus numbers) for the average of the global hotel leaders. The figure for Jinjiang is at 12x. Therefore, considering hotel scale and profit resilience, we believe Jinjiang Hotels' shares deserve a re-rating.

ESG

Green Hotel initiative offers a guide to the industry's future

From the perspective of environmental protection, the direction of the hotel industry is to adopt more environmentally friendly hotel designs, and to further promote energy saving and consumption reduction, waste removal and emission reduction. In general, we believe that limited-service hotels are better than independent hotels in terms of environmental protection. For example, Jinjiang has introduced a "Green Hotel" initiative, as outlined blow.

Exhibit 37. Jinjiang's "Green Hotel" initiative

	Actions
Green management	The company has established an energy-saving team to coordinate hotel energy management and adopt an IT system to control daily energy consumption.
Green office	The company encourages employees to save electricity and water
Green design	The company uses environmentally friendly materials as much as possible during the hotel construction period. For example, water-based paint material is used in decoration to reduce air pollution.
Energy saving	Energy saving and emission reduction in terms of equipment upgrade and energy consumption: 1) Water-saving foamer is installed in showers and faucets to save water. 2) Incandescent lamps all replaced with LED lamps and energy-saving lamps 3) Hotel air conditioning and hot water equipment are installed with heat recovery equipment 4) Solar energy, air source heat pump and other energy saving and environmental protection equipment are well-used.
Waste removal and emission reduction	The kitchen and hotel sewage and oil fume discharge have grease traps, septic tanks, and smoke exhaust ducts for isolated emissions. Recycling and processing boiling water into a reclaimed water system.

Source: Jinjiang social responsibility report 2019, HSBC Qianhai Securities

Social responsibilities of travel and hotel companies

The majority of tourism leaders are state-owned enterprises. Their social responsibilities mainly include: promoting travel industry with regional development, assisting major national activities, promoting the concept of civilized tourism, and practising poverty alleviation. When major natural disasters or epidemics occur, we believe tourism and hotel companies will live up to their social responsibilities.

In the context of the outbreak of the COVID-19 in 2020, listed tourism companies have not only proactively closed scenic spots, hotels, tourism, catering and other businesses in a timely manner in accordance with the requirements of relevant departments, but also tried their best to assist tourists in processing refunds. They have also introduced financial and insurance support policies for franchisees, and allowed the government to use hotels to house medical staff.

Product quality

For hotel operators, the quality of the products purchased by the hotel will affect the guest experience and a relatively stable partnership with upstream suppliers will stabilise operating costs and help maximise common interests.

Taking Jinjiang as an example, the company has ensured stable supply quality by: 1) signing the "Integrity Agreement", 2) sampling inspections, and 3) frequent employee training.

Exhibit 38. Jinjiang Hotels - 2019 Sampling inspection

	2019 Sampling inspection for suppliers
Sampling category coverage	Disposable guest supplies, paper towels, towels/bath towels, bedding, building materials, clothing decoration, guest room miscellaneous items, furniture
Number of selective inspections	307 batches
Supplier coverage	31 suppliers (basically cover all categories of supplies)
Number of inspections delivered	265 batches

Source: Jinjiang social responsibility report 2019, HSBC Qianhai Securities

Exhibit 39. Hotel leaders ESG score comparison

	Governance disclosure score by Bloomberg			Board size			% independent directors			Number of board meetings		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Jinjiang	53.57	53.57	53.57	9	9	11	33.3%	33.3%	36.4%	13	15	19
BTG	48.21	48.21	48.21	11	11	10	36.4%	36.4%	40.0%	11	9	6

Source: Bloomberg, company data, HSBC Qianhai Securities

Company section

Jinjiang Hotels (600754 CH)

- China's No.1 by room numbers, with a sales market share of 11% in mid-end hotels, ranked first in China
- Franchised rooms accounted for 87% of total in 2019; asset light franchise model helps to improve margins
- Initiate at Buy with a TP of RMB49.00

Leading state-owned hotel chain

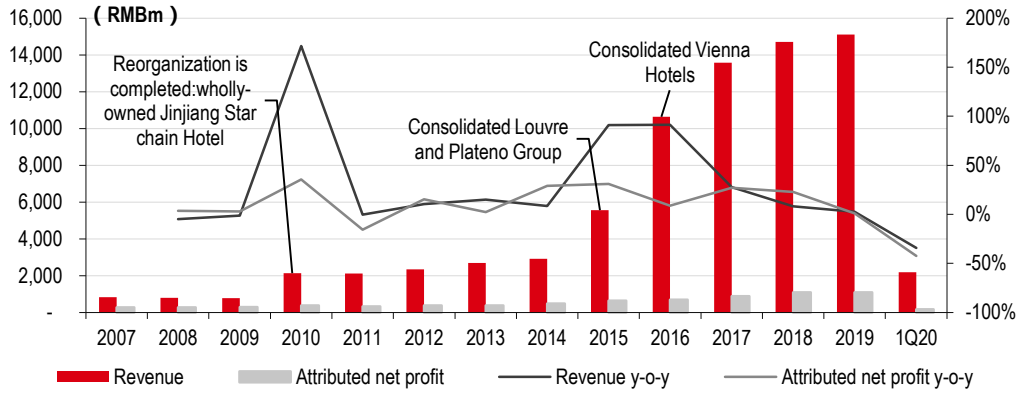
Clear scale advantages and leading market share by sales

Founded in 1994, Jinjiang Hotels is a well-established state-owned enterprise based in Shanghai. In 1996, the company launched the brand "Jinjiang Inn" to tap into the limited service hotel (LSH) market. In the past decade, Jinjiang has acquired Louvre Hotels Group, Plateno Group and Vienna Hotels Group, and split off its full-service hotel (FSH) business. As of end-2019, Jinjiang owned 8,514 hotels, of which 7,221 are in mainland China. The company's chain hotels now cover 31 provinces in China and 65 overseas countries and regions.

Jinjiang enjoys strong scale and brand advantages

Jinjiang enjoys strong scale and brand advantages. As of end-2019, the number of guest rooms had reached 845,177, ranking first in China. According to Euromonitor, Jinjiang's mid-end and budget hotels occupy the largest market share of 11% and 20% in China by sales. The company has an asset light business model. The industry-leading ratio of franchised hotels (87% of total rooms) supports earnings during industry troughs and, as Jinjiang continues to expand its franchise business, this will create further growth opportunities.

Exhibit 40. Historical revenue and net profit performance



Source: Company data, HSBC Qianhai Securities

By the end of 2020, we expect Jinjiang Hotels to have a net addition of c1,000 hotels, with a focus on the domestic market. The company generates its revenue from LSH operations and management (98%) and food and catering business (2%); 72% of LSH revenue comes from the

mainland China market. The company also receives investment income from KFC chain restaurants in Shanghai, Hangzhou, Wuxi and Suzhou.

Strong brand portfolio with the strongest mid-market presence

We believe Jinjiang Hotels gained first-mover advantage by taking a number of M&A opportunities during 2015-17. The company now operates a wide range of hotels brands, including Golden Tulip, Jinjiang Metropolo, Campanile, Jinjiang Inn, Lavande, James Joyce Coffetel and 7 days Inn. We think Jinjiang owns a strong brand portfolio in the mid-end and economy market, owning three top-10 mid-end brands and two top-10 economy brands.

Exhibit 41. Jinjiang Hotels: key M&A

Date of disclosure	Underlying asset	Buyer	Consideration (RMBm)	Update	Business coverage
15 Jan 2015	100% equity of Louvre Hotels Group	Jinjiang Hotels	12,592	Completed	Louvre hotels business(mainly budget hotels)
19 Sep 2015	81% equity of Keystone (actual controller of Plateno Group)	Jinjiang Hotels	8,269	Completed	Plateno hotel brands(7 days Inn), mainly budget and middle-end hotels
29 Apr 2016	80% equity of Vienna Hotel 80% equity in Baisuicun Restaurants	Jinjiang Hotels	1,750	Completed	Vienna hotel brands, mainly middle-end
21 Oct 2017	12% equity of Keystone (actual controller of Plateno Group)	Jinjiang Hotels	1,205	Completed	Introduction of hotel brands of Lavande, James Joyce Coffetel
24 Nov 2018	3.5% equity of Keystone (actual controller of Plateno Group)	Jinjiang Hotels	351	Completed	
9 Jan 2020	100% equity of Xi'an Jinjiang Inn 100% equity of Zhengzhou Jinjiang Inn	Guanglv Enterprise	135	Approved by the board	
1 Apr 2020	70% equity of Dahua Hotel 100% equity of Tianjian Jinjiang Inn 100% equity of Ningbo Jinbo Hotel 70% equity of Dishui Lake Jinjiang Inn	Jinjiang Investment Jinjiang Capital (2006 HK)	341	Transfer agreement has been signed	
1 Jul 2020	Controlling equity shares of five hotels under Jinjiang in Tianjin, Shenyang, Changchun and other cities	Jinjiang Capital (2006 HK)	160	Transfer agreement has been signed	

Source: Company data, HSBC Qianhai Securities

Note: Plateno group refers to Keystone Lodging Holdings and its subsidiaries

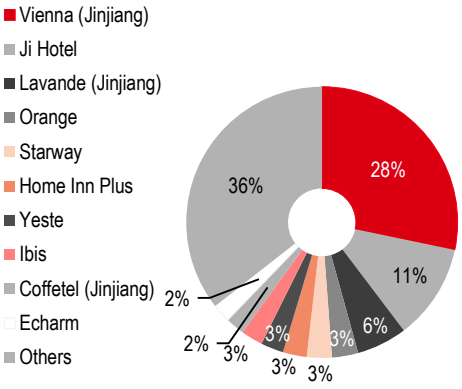
Exhibit 42. Brand portfolio of Jinjiang Hotels

Number of hotels	Mid-end (3,563)	Economy (4,951)
Jinjiang series	Jinjiang Metro (107)	Jinjiang Inn (1,058)
Plateno series	Lavande (570), Coffetel (238), Xana (249)	7-days (2195), IU (225), Pai (308)
Louvre series	Golden Tulip (276)	Première Classe (243), Campanile (380), Kyriad (295), Sarovar (87)
Vienna series	Vienna (1,739)	N/A

Source: Company data, HSBC Qianhai Securities

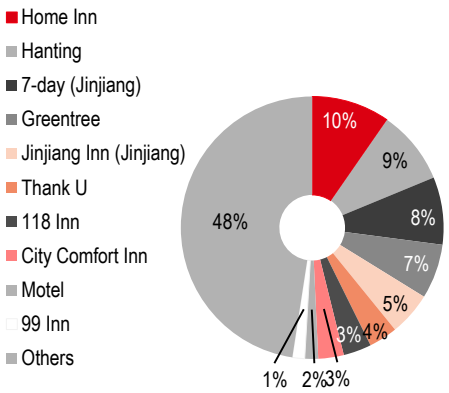
Note: Hotel count as at end of 2019

Exhibit 43. Mid-end brand market share in terms of rooms



Source: Inntie, HSBC Qianhai Securities

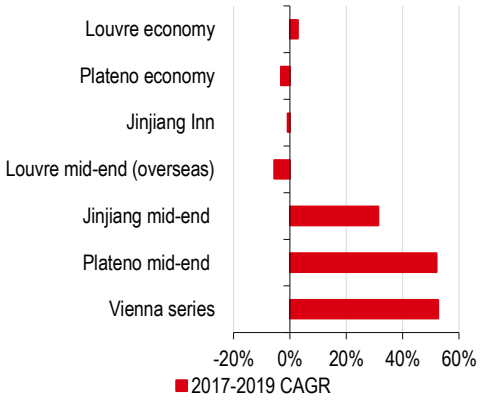
Exhibit 44. Economy brand market share in terms of rooms



Source: Inntie, HSBC Qianhai Securities

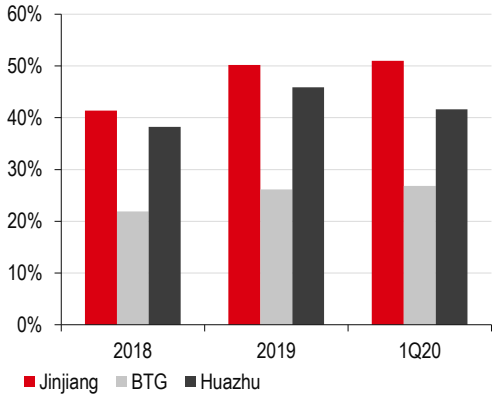
Among the big four brand series, mid-end hotels under the Vienna and Plateno series (Lavande, Coffetel, Xana) have grown the fastest, while the scale of economy hotels (i.e. 7 days and Jinjiang Inn) has shrunk.

Exhibit 45. Growth of Jinjiang hotel number by brand series



Source: Company data, HSBC Qianhai Securities

Exhibit 46. Mid-to-high penetration by rooms of China hotel leaders

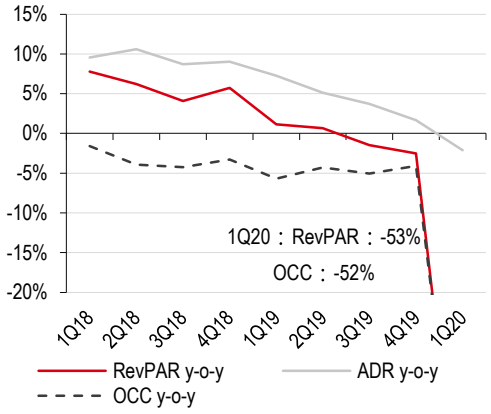


Source: Company data, HSBC Qianhai Securities

The company continues to strengthen its position in both mid-end and franchised hotels. The franchise model now accounts for 87% of its hotel rooms and the share of mid-end hotel rooms has risen from 41% in 2018 to 51% in 1Q20. The challenge is that RevPAR for mid-end and economy hotels has declined y-o-y since 2H18 in the industry downcycle.

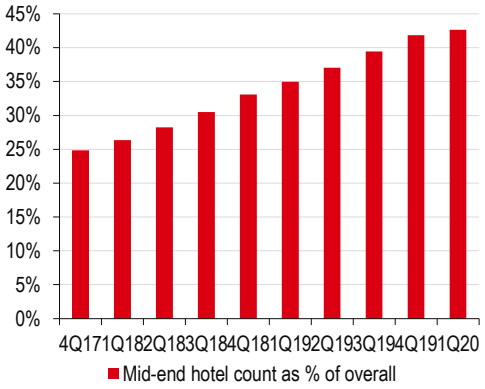
The good news is that the company continues to upgrade. The ratio of mid-end hotels rose from 25% by end-2017 to 43% in 1Q20, underpinning overall RevPAR. Based on the absolute number and ratio of mid-end hotels, we believe Jinjiang Hotels is outperforming BTG Hotels.

Exhibit 47. Jinjiang Hotels: domestic hotels RevPAR trend



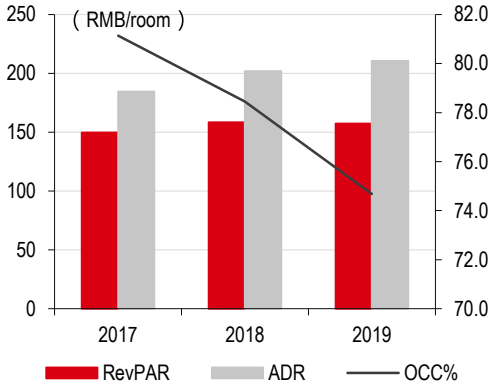
Source: Company data, HSBC Qianhai Securities
*RevPAR as Home Inn Group operation data

Exhibit 48. Jinjiang Hotels: ratio of domestic mid-end hotels



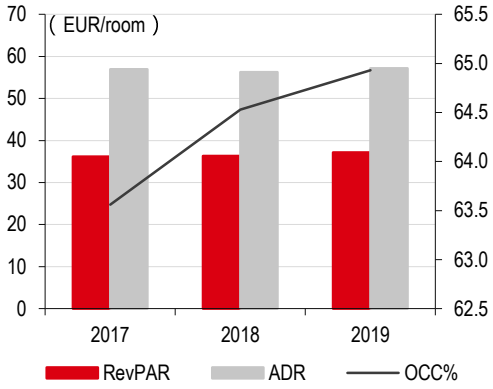
Source: Company data, HSBC Qianhai Securities

Exhibit 49. Jinjiang Hotels: domestic hotels RevPAR trend



Source: Company data, HSBC Qianhai Securities

Exhibit 50. Jinjiang Hotels: overseas hotels RevPAR trend



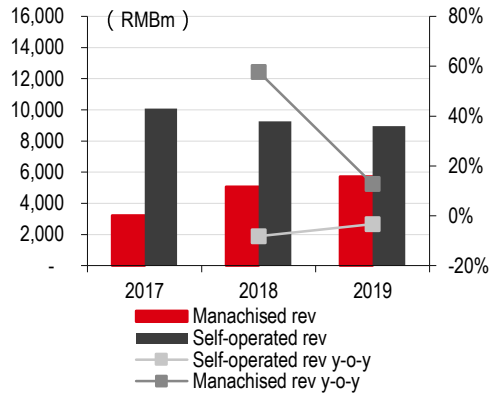
Source: Company data, HSBC Qianhai Securities

The asset light model

The company continues to focus on LSH business and operate its hotels under an asset light model in order to boost the rate of expansion. On the other side, the full service hotel assets are operated under its controlling company – Jinjiang Capital (2006 HK).

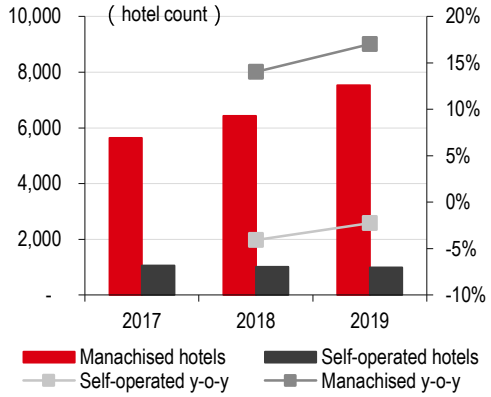
Since 2019, Jinjiang has also been looking to sell off its self-operated hotel properties. For example, it sold two Jinjiang Inn properties in Xi'an and Zhengzhou to related parties in the group in January 2020 and transferred the equity of another four subsidiaries (hotel properties) in April. The sold hotels will continue to be operated as franchises under the company once the sales are completed. We believe this will help to improve operating efficiency and to obtain good cash flow.

Exhibit 51. Revenue trend of owned and manachised hotels



Source: Company data, HSBC Qianhai Securities

Exhibit 52. Number changes of owned and franchised hotels



Source: Company data, HSBC Qianhai Securities

After several M&As the company is integrating its various brands based on its “one centre, three platforms” strategy – Hotel Global Innovation Centre, WeHotel Global Shared Hotel Platform, Global Shared Procurement Platform and Global Shared Financial Platform. This approach aims to improve operational efficiency by integrating the hotel bookings, procurement and financials of different brand companies. We believe this will also help Jinjiang reduce its expense ratio of sales.

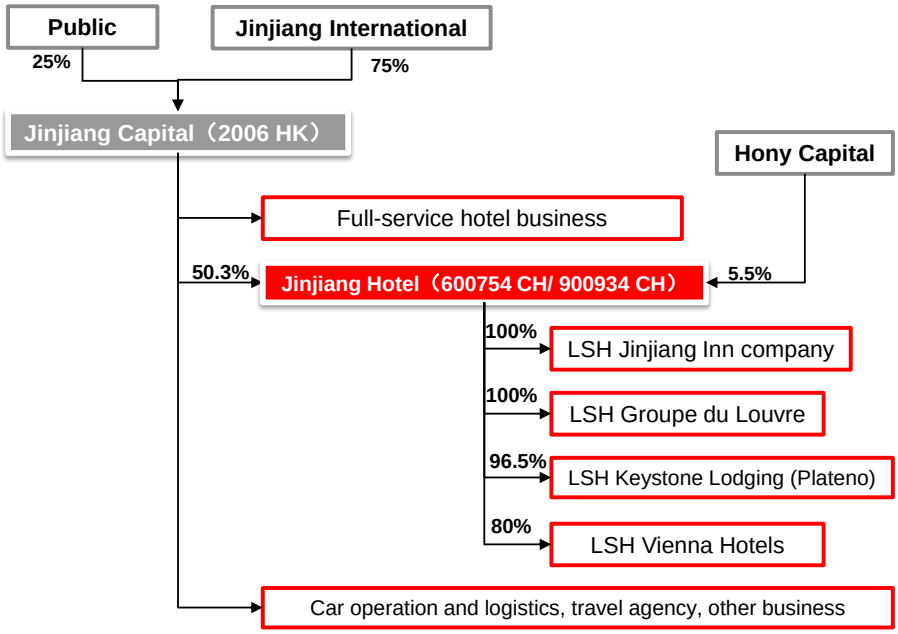
WeHotel is central to this process. In 2017 the company jointly invested RMB1bn with partners such as Jinjiang Capital and Shanghai UnionPay Investment to build this membership and hotel booking system that covers all acquired and self-developed brands. The company holds a 10% stake. We think the integration of the booking system helps to reduce the dependence on guest flow from online travel agents (OTAs).

Ownership structure

The company’s actual controller is Shanghai SASAC. The largest shareholder, Jinjiang Capital (2006 HK), holds 50.3% equity, followed by a 5.5% shareholding by Hony Capital; the holdings of other shareholders are all below 5%.

In terms of share types, the company has 801mn A shares and 156mn B shares, contributing 84% and 16% of the total shares respectively.

Exhibit 53. Equity structure of Jinjiang Hotels



Source: Company data, HSBC Qianhai Securities

*Note: Plateno refers to Keystone Lodging Holdings Ltd. and its subsidiaries

Government supported revenue during COVID-19

We expect the impact of COVID-19 on the hotel industry to be temporary and think the company's RevPAR and the occupancy rate are set to recover in 2H20.

As the outbreak spread, Jinjiang Hotels responded by waiving or reducing franchise fees, closely monitoring the temporary closure of hotels, and strengthening disinfection and cleaning procedures. Since late January 2020, over 800 hotels owned, managed or franchised by the company with more than 80,000 rooms have been made available to the government at market price to house medical staff. This generated revenue that helped support the company at a time when guest numbers plunged.

Earnings estimates

The company recorded revenue and attributable net profit of RMB15.1bn and RMB1.09bn in 2019, up 3% and 1% y-o-y; attributable recurring net profit climbed 21% y-o-y to RMB890m. The LSH business achieved revenue and net profit growth of 3% and 18.6% y-o-y, driven by accelerating expansion, higher returns on investment in KFC restaurants, and cost control.

Despite the impact of COVID-19, the company remained profitable in 1Q20

Despite the impact of COVID-19, the company remained profitable in 1Q20, with revenue and attributable net profit of RMB2.2bn and RMB170m, down 34% and 42% y-o-y.

We forecast that revenue and attributable net profit will grow at CAGRs of 7% and 15% over 2019-22e. As we expect COVID-19 to have a stronger-than-expected impact on 2020e earnings, our 2020e attributable net profit estimate is below consensus.

Exhibit 54. HSBC Qianhai Securities estimates vs. consensus

	HSBC Qianhai Securities estimates			Consensus			Difference		
RMBm	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
Revenue	12,412	17,117	18,540	12,752	16,120	17,053	-3%	6%	9%
Attributable net profit	608	1,368	1,640	670	1,328	1,520	-9%	3%	8%

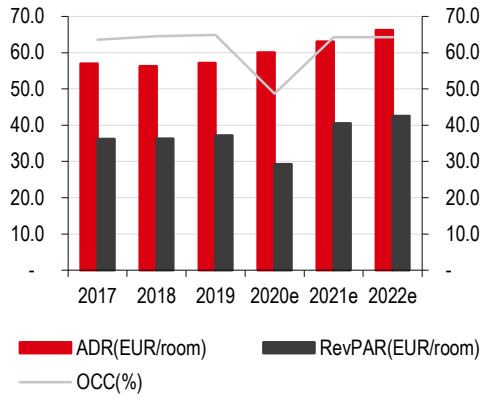
Source: Company data, Wind, HSBC Qianhai Securities estimates

Revenue and RevPAR

We estimate 2022e revenue to rise to RMB18.5bn, in line with our forecast CAGR of 7% over 2019-22e for the company as a whole and 7% for the LSH business.

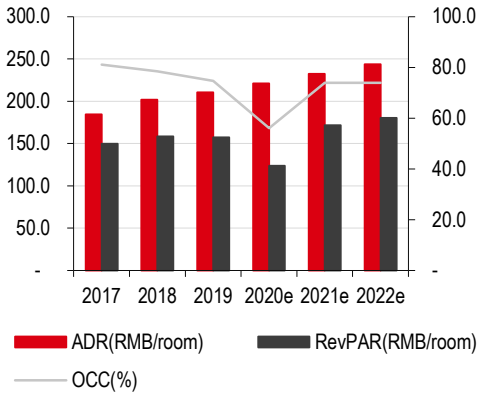
We expect the domestic and overseas businesses to achieve revenue CAGRs of 9% and 3% over 2019-22e. We forecast self-operated and manachised business to grow at CAGRs of 1% and 16% over the same period, benefiting from rising RevPAR driven by consumption upgrades and an increasing number of manachised hotels.

Exhibit 55. Overseas hotel operation data: OCC & ADR estimates



Source: Company data, HSBC Qianhai Securities estimates

Exhibit 56. Domestic hotel operation data: OCC & ADR estimates



Source: Company data, HSBC Qianhai Securities estimates

Exhibit 57. Revenue and operation estimates

(RMBm)	2017a	2018a	2019a	2020e	2021e	2022e
Revenue	**13,583**	**14,697**	**15,099**	**12,412**	**17,117**	**18,540**
Hotel operation and management	**13,328**	**14,461**	**14,846**	**12,137**	**16,820**	**18,224**
Domestic	9,438	10,359	10,749	8,983	12,585	13,782
Self-operation revenue	5,300	5,501	5,250	3,912	5,109	5,153
Manachised revenue	2,215	4,152	4,817	4,562	6,811	7,959
other revenue	50	136	165	173	182	191
Overseas	3,891	4,102	4,097	3,153	4,235	4,441
Self-operation revenue	2,841	3,046	3,027	2,357	3,182	3,335
Manachised revenue	1,049	1,056	1,070	797	1,054	1,107
Food and catering	**254**	**236**	**253**	**275**	**297**	**316**
Others	**0.1**	**0.7**	**0.2**	**0.2**	**0.2**	**0.2**
Number of hotels	**6,694**	**7,443**	**8,514**	**9,531**	**10,600**	**11,680**
Domestic	5,395	6,147	7,221	8,250	9,320	10,400
Self-operation revenue	770	725	698	650	620	600
Manachised revenue	4,625	5,422	6,523	7,600	8,700	9,800
Overseas	1,299	1,296	1,293	1,281	1,280	1,280
Self-operation revenue	285	287	291	281	280	280
Manachised revenue	1,014	1,009	1,002	1,000	1,000	1,000
Number of rooms	**649,632**	**732,701**	**845,177**	**942,188**	**1,051,629**	**1,162,171**
Domestic	540,747	625,235	739,095	844,417	953,935	1,064,477
Self-operation revenue	97,029	93,276	89,634	83,470	79,618	77,049
Manachised revenue	443,718	531,959	649,461	756,692	866,214	975,735
Overseas	108,885	107,466	106,082	97,771	97,694	97,694
Self-operation revenue	21,765	22,135	22,709	21,631	21,554	21,554
Manachised revenue	87,120	85,331	83,373	76,140	76,140	76,140
RevPAR						
Domestic (RMB/room)	**150**	**158**	**157**	**124**	**172**	**180**
y-o-y		6%	-1%	-21%	39%	5%
Overseas (EUR/room)	**36**	**36**	**37**	**29**	**41**	**43**
y-o-y		0%	2%	-21%	39%	5%

Source: Company data, HSBC Qianhai Securities estimates

EBIT and net profit

We forecast that attributable net profit margin will rise from 7.9% in 2019 to 8.8% in 2022e. The rising share of franchised hotels should enhance operating profit margin, while SOE reform and the "one centre, three platforms" strategy will support cost control and efficiency improvements, in our view.

After factoring in the impact of COVID-19 on 2020e earnings, we estimate 2020-22e attributable net profit of RMB0.6bn, RMB1.4bn and RMB1.6bn.

Exhibit 58. Earnings estimates

RMBm	2017	2018	2019	2020e	2021e	2022e
Total revenue	**13,583**	**14,697**	**15,099**	**12,412**	**17,117**	**18,540**
y-o-y	28%	8%	3%	-18%	38%	8%
COGS	1,295	1,528	1,527	1,250	1,541	1,576
Gross profit	12,287	13,169	13,572	11,162	15,577	16,964
gross margin	90.5%	89.6%	89.9%	89.9%	91.0%	91.5%
Sales taxes and others	167	172	164	135	186	201
Selling expense	7,323	7,538	7,689	6,920	8,691	9,362
G&A	3308	4090	4105	3694	4639	5006
Finance cost	418	372	339	226	245	204
Operating profit	**1,490**	**1,369**	**1,614**	**413**	**2,061**	**2,394**
Operating margin	11.0%	9.3%	10.7%	3.3%	12.0%	12.9%
y-o-y	78%	-8%	18%	-74%	399%	18%
EBIT	1,596	1,888	2,048	914	2,488	2,840
EBIT margin	12%	13%	14%	7%	15%	15%
Pretax profit	**1,277**	**1,564**	**1,759**	**637**	**2,193**	**2,587**
pretax margin	9.4%	10.6%	11.7%	5.1%	12.8%	14.0%
Taxes	287	336	480	(64)	504	569
tax rate	22.4%	21.5%	27.3%	-10.0%	23.0%	22.0%
Profit for minority	108	145	187	93	320	377
Attributable net profit	**882**	**1,082**	**1,092**	**608**	**1,368**	**1,640**
Attributable net margin	6.5%	7.4%	7.2%	4.9%	8.0%	8.8%
y-o-y	27%	23%	1%	-44%	125%	22%

Source: Company data, HSBC Qianhai Securities estimates

Balance sheet

The company has a high leverage ratio, with an overall asset-liability ratio of 63%, total debt of RMB15.6bn and net gearing ratio of 73% by end-2019. We estimate that as a result of the transformation to an asset-light model and improvements in internal operations, the overall asset-liability ratio should drop to 56% by 2022e. Meanwhile, the “one centre, three platforms” strategy is set to promote brand synergies and profit growth.

2019 goodwill reached RMB11.4bn, accounting for a higher proportion of non-current assets. Of which, the acquisition of Plateno Group, Louvre Hotels Group, and Vienna Hotels brought about goodwill of RMB5.8bn, RMB4.8bn and RMB700m, respectively. Looking ahead, we expect goodwill will remain stable without significant impairment.

Exhibit 59. Balance sheet and cash flow

RMBm	2017	2018	2019	2020e	2021e	2022e
Balance sheet						
Cash and cash equivalents	9,883	7,355	5,920	4,338	7,833	7,654
Account receivables	1,414	1,488	1,639	1,421	2,612	1,198
Prepayment	327	279	211	190	304	202
Inventory	76	85	94	53	128	57
Short-term investment	0	263	252	252	252	252
Other current asset	709	366	381	389	389	389
Total current asset	**12,409**	**9,835**	**8,496**	**6,643**	**11,518**	**9,752**
PP&E (excluding CIP)	6,747	6,634	6,432	6,126	5,846	5,583
Long-term investment	1,525	1,145	502	502	502	502
Other long-term assets	22,878	22,518	23,444	23,385	23,293	23,175
Total non-current assets	**31,150**	**30,297**	**30,378**	**30,013**	**29,641**	**29,261**
Total assets	**43,560**	**40,133**	**38,874**	**36,656**	**41,159**	**39,013**
Account payable	3,492	3,656	3,703	2,256	4,919	2,852
Advances	873	948	998	601	1,556	679
Short-term debt	1,287	1,721	1,234	1,234	1,234	1,234
Other current liabilities	1,287	1,726	1,679	1,679	1,679	1,679
Total current liabilities	**6,939**	**8,050**	**7,614**	**5,769**	**9,388**	**6,443**
Long-term debt	19,252	15,781	14,372	13,872	13,372	12,872
Other long-term liabilities	2,753	2,504	2,532	2,532	2,532	2,532
Total non-current liabilities	**22,005**	**18,284**	**16,905**	**16,405**	**15,905**	**15,405**
Total liabilities	**28,944**	**26,334**	**24,518**	**22,174**	**25,292**	**21,848**
Shareholders' equity	14,616	13,798	14,356	14,482	15,867	17,165
Liabilities and equity	43,560	40,133	38,874	36,656	41,159	39,013
Cash flow summary						
Inflow from operation activities	3,252	3,515	2,638	408	4,980	1,663
Inflow from investment activities	-945	-605	-886	-1,000	-1,000	-1,000
Inflow from financing activities	1,177	-5,444	-3,195	-982	-484	-842

Source: Company data, HSBC Qianhai Securities estimates

Earnings sensitivity

Due to the impact of COVID-19, 1Q20 RevPAR declined in both domestic and overseas markets, dragging down 1Q20 attributable net profit by 42%. For 2020, we estimate the pandemic to have a material negative impact on the occupancy rate and the overall net margin for the year.

As demand in the hotel industry is driven business and tourism, we see the impact of COVID-19 on RevPAR fading in 2021e. Based on our earnings sensitivity analysis, assuming an unchanged average daily rate (ADR), every 1% drop in the 2021e occupancy rate will lead to a c2% decline in attributable net profit from our base case.

Exhibit 60. 2021e earnings sensitivity analysis

Occupancy rate (OCC) and average daily rate (ADR) sensitivity analysis, assuming same change in mainland China and other markets

2021e RevPAR		OCC %		
		10%	Base case	-10%
ADR		**81.3**	**73.9**	**66.5**
10%	**255**	208	189	170
Base case	**232**	189	172	154
-10%	**209**	170	154	139

2021e earnings change		OCC %		
		10%	Base case	-10%
ADR		**81.3**	**73.9**	**66.5**
10%	**255**	44%	21%	-5%
Base case	**232**	21%	0%	-21%
-10%	**209**	-5%	-21%	-40%

Source: Company data, HSBC Qianhai Securities estimates

Valuation and risks

Valuation

As an LSH leader, we are positive about the company's long-term stable cash flow. Therefore, we apply a DCF methodology to value this stock. Our key assumptions include a 7.0% WACC and 2.0% perpetual growth rate (see table below for details). We derive a target price of RMB49, implying 23% upside. Given the scale and brand advantages in the LSH market, we initiate coverage with a Buy rating. Our TP implies a 34x 2021e PE and 15x 2021e EV/EBITDA; currently, the stock trades at 28x 2021e PE and 12x 2021e EV/EBITDA.

The company is trading at a lower PE multiple than domestic leaders. Based on EV/EBITDA, the company's valuation is equal to or below that of key listed US hotels (17x and 14x for Hilton and Hyatt, respectively). Considering its industry-leading scale in terms of hotel rooms and the level of premiumisation, we believe the stock deserves a re-rating.

Exhibit 61. Jinjiang Hotels: DCF model

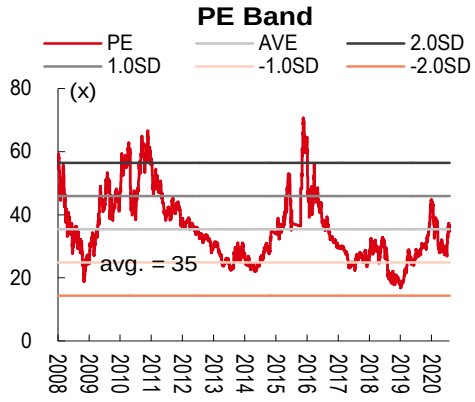
RMBm	2017	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
EBIT	1,596	1,888	2,048	914	2,488	2,840	3,181	3,499	3,849	4,196	4,574	4,939	5,285
y-o-y change (%)		18%	8%	-55%	172%	14%	12%	10%	10%	9%	9%	8%	7%
Operating FCF	1,944	1,982	1,632	182	3,686	2,013	2,159	2,375	2,613	2,848	3,104	3,353	3,587
y-o-y change (%)		2%	-18%	-89%	1925%	-45%	7%	10%	10%	9%	9%	8%	7%

Perpetual growth rate	2.0%	Discounted free cash flow	18,516
WACC	7.0%	Discounted terminal value	39,258
Cost of debt after tax	4.9%	Enterprise Value	57,774
Cost of equity	9.5%	Net Cash (Debt)	-10,768
Risk-free rate	2.5%	Equity Value	47,099
Market risk premium	6.0%		
Beta coefficient	1.2	**Value per share (RMB)**	**49.00**
Optimal capital structure	53%		

Source: Company data, HSBC Qianhai Securities estimates

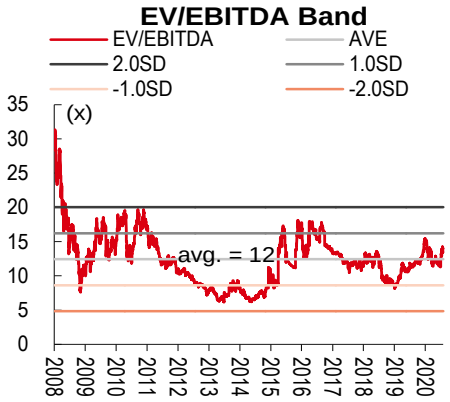
Potential share price catalysts: Faster-than-expected pace of hotel expansion; a stronger-than-expected q-o-q increase of RevPAR and revenue would boost earnings and push up the share price.

Exhibit 62. Jinjiang Hotels forward PE band



Source: Company data, HSBC Qianhai Securities estimates

Exhibit 63. Jinjiang Hotels forward EV/EBITDA band



Source: Company data, HSBC Qianhai Securities estimates

Key downside risks:

- **Macro-economic slowdown:** The profitability of tourism is strongly correlated to the economic cycle. A slowdown or sharp fluctuation will have a substantial negative effect on earnings.
- **Force majeure:** Domestic and global political and economic situations change, and natural disasters or contagious diseases would weigh on tourism.
- **Costs:** Rising costs, including depreciation and amortisation of fixed assets, property rental, labour costs, energy consumption and others, will increase pressure on the company's operations, dragging down earnings.
- **Weaker-than-expected performance of new brands:** The company is transitioning to band premiumisation and an asset light model. Weaker-than-expected performance of new brands would significantly affect the company's performance.
- **Impairment of goodwill:** The company's acquisitions may cause the company to form a large amount of goodwill. If the future operating conditions of the Louvre group, Plateno group, Vienna group and Jinguang Express series continue to underperform, there will be a risk of impairment of goodwill, which could drag down the company's earnings.

Financials & valuation: Shanghai Jinjiang Intl Hotels

Buy

Financial statements

Year to	12/2019a	12/2020e	12/2021e	12/2022e
Profit & loss summary (CNYm)				
Revenue	15,099	12,412	17,117	18,540
EBITDA	3,435	2,279	3,860	4,221
Depreciation & amortisation	-1,387	-1,365	-1,372	-1,380
Operating profit/EBIT	2,048	914	2,488	2,840
Net interest	-289	-276	-295	-253
PBT	1,759	637	2,193	2,587
HSBC Qianhai PBT	1,759	637	2,193	2,587
Taxation	-480	64	-504	-569
Net profit	1,092	608	1,368	1,640
HSBC Qianhai net profit	1,092	608	1,368	1,640
Cash flow summary (CNYm)				
Cash flow from operations	2,638	408	4,980	1,663
Capex	-1,132	-1,000	-1,000	-1,000
Cash flow from investment	-886	-1,000	-1,000	-1,000
Dividends	-575	-304	-720	-863
Change in net debt	-455	1,074	-3,996	-321
FCF equity	1,506	-592	3,980	663
Balance sheet summary (CNYm)				
Intangible fixed assets	22,940	22,681	22,430	22,185
Tangible fixed assets	6,936	6,830	6,709	6,574
Current assets	8,496	6,643	11,518	9,752
Cash & others	5,912	4,338	7,833	7,654
Total assets	38,874	36,656	41,159	39,013
Operating liabilities	8,912	7,068	10,686	7,742
Gross debt	15,606	15,106	14,606	14,106
Net debt	9,694	10,768	6,773	6,452
Shareholders' funds	13,255	13,289	14,353	15,273
Invested capital	23,548	24,748	22,137	23,114

Ratio, growth and per share analysis

Year to	12/2019a	12/2020e	12/2021e	12/2022e
Y-o-y % change				
Revenue	2.7	-17.8	37.9	8.3
EBITDA	3.2	-33.7	69.4	9.3
Operating profit	8.5	-55.4	172.3	14.2
PBT	12.5	-63.8	244.0	18.0
HSBC Qianhai EPS	0.9	-44.3	125.0	19.9
Ratios (%)				
Revenue/IC (x)	0.7	0.5	0.7	0.8
ROIC	6.4	4.2	8.2	9.8
ROE	8.4	4.6	9.9	11.1
ROA	3.9	2.9	5.0	5.7
EBITDA margin	22.8	18.4	22.5	22.8
Operating profit margin	13.6	7.4	14.5	15.3
EBITDA/net interest (x)	11.9	8.2	13.1	16.7
Net debt/equity	67.5	74.4	42.7	37.6
Net debt/EBITDA (x)	2.8	4.7	1.8	1.5
CF from operations/net debt	27.2	3.8	73.5	25.8
Per share data (CNY)				
EPS Rep (diluted)	1.14	0.63	1.43	1.71
HSBC Qianhai EPS (diluted)	1.14	0.63	1.43	1.71
DPS	0.60	0.32	0.75	0.90
Book value	13.84	13.87	14.98	15.94

Valuation data

Year to	12/2019a	12/2020e	12/2021e	12/2022e
EV/sales	2.8	3.5	2.3	2.1
EV/EBITDA	12.3	19.1	10.3	9.4
EV/IC	1.8	1.8	1.8	1.7
PE*	35.0	62.8	27.9	23.3
PB	2.9	2.9	2.7	2.5
FCF yield (%)	4.7	-1.9	12.4	2.1
Dividend yield (%)	1.5	0.8	1.9	2.3

* Based on HSBC Qianhai EPS (diluted)

ESG metrics

Environmental Indicators	12/2019a
GHG emission intensity*	n/a
Energy intensity*	n/a
CO_2 reduction policy	Yes
Social Indicators	**12/2019a**
Employee costs as % of revenues	n/a
Employee turnover (%)	n/a
Diversity policy	Yes

Governance Indicators	12/2020e
No. of board members	11
Average board tenure (years)	7.2
Female board members (%)	18.2
Board members independence (%)	36.4

Source: Company data, HSBC Qianhai Securities

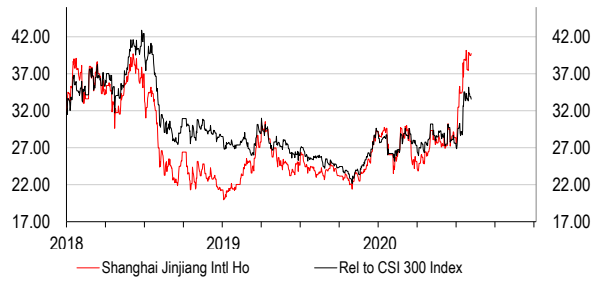
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (CNY)	39.88
Target price (CNY)	49.00
RIC (Equity)	600754.SS
Bloomberg (Equity)	600754 CH
Market cap (USDm)	4,569

Free float	25%
Sector	Hotels Restaurants & Leisure
Country/Region	China
Analyst	Joseph Zhou
Contact	+86 755 8898 3401

Price relative



Source: HSBC Qianhai Securities

Note: Priced at close of 28 Jul 2020

BTG Hotels (600258 CH)

- BTG Hotels is China's third-largest hotel group in China, with a 16% share in the economy hotel market
- Home Inns is China's No.2 economy brand based on room numbers; the company is upgrading its product mix to boost margins
- Initiate at Hold, with a target price of RMB19.00

A leading chain hotel operator with strong shareholder support

Penetrating LSH industry by privatising Home Inns

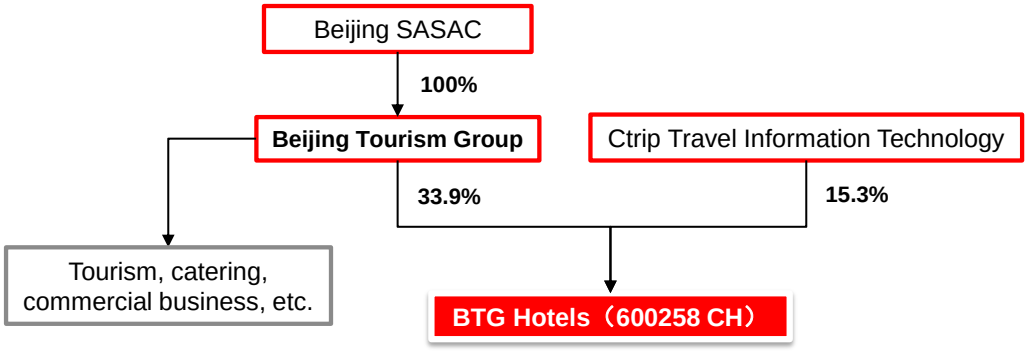
Headquartered in Beijing, state-owned BTG Hotels was founded in 1999 and listed on the Shanghai Stock Exchange in June 2000. The company's business model has changed in more recent years. In 2014, travel services generated 95% of total revenue. The following year it divested its travel services business and switched the focus to hotels.

In 2016, BTG expanded into the economy hotel industry by acquiring Home Inns

In 2016, it expanded into the economy hotel industry by acquiring Home Inns, the largest economy hotel brand at the time, which was then delisted from the NASDAQ. This made the company the second largest hotel operator in China.

Beijing Tourism Group, a major shareholder of BTG Hotels, has a wide range of businesses including tourism, real estate, retail sales and catering. In our view, BTG Hotels can receive financial and other forms of support from its major shareholder when it acquires high-quality properties or when the industry is sluggish.

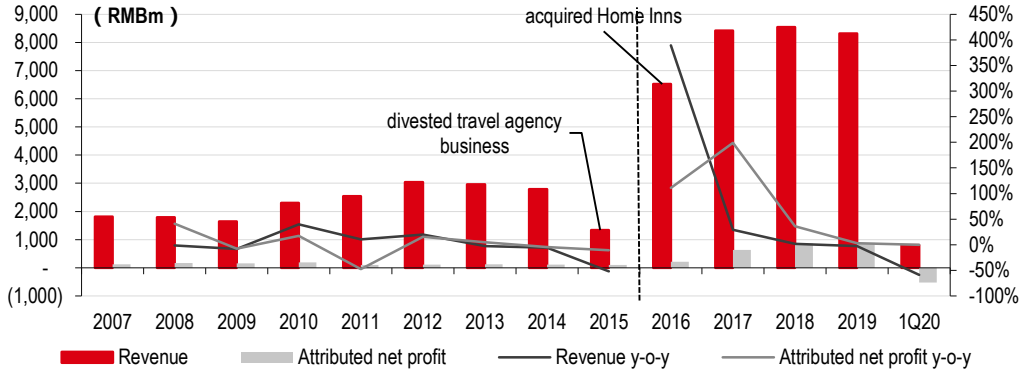
Exhibit 64. Shareholding structure of BTG Hotels



Source: Company data, HSBC Qianhai Securities

BTG Hotels is one of the top 3 hotel leaders in China. It is also the No.3 in economy (16%) and mid-end hotel market share (4%), based on sales revenue. As at end-2019, BTG Hotels had 4,450 hotels, of which 81% were franchised and 19% directly operated. The company's strategy is to gradually increase the proportion of mid/high-end hotels.

Exhibit 65. Historical revenue and net profit trend of BTG Hotels



Source: Company data, HSBC Qianhai Securities

Exhibit 66. Major brands of BTG Hotels

Hotels	Major brands and hotel numbers
Mid to high-end	Jianguo Hotel (62), BTG-Nanyuan (8), Jinglun Hotel (18)
Mid-end	Home Inn Selected (220), Home Inn Plus (388), Yitel (183), Ease Hotel (Golden) (45), Hidden Hotel (7)
Economy	Home Inn (2133), Motel (282), Ease Hotel (Blue) (86), Yake e Home (41), Fairyland Hotel (33), Shindom Inn (23)

Source: Company data, HSBC Qianhai Securities

Note: Hotel count up to YE2019

One major difference between BTG and Jinjiang is the proportion of self-operated hotels – 19% vs Jinjiang's 12%. This means BTG has higher operating costs and fixed expenditure, so its earnings have been hit harder by the pandemic. Due to COVID-19, the company booked a 59% y-o-y decline in revenue and RMB530m of losses in 1Q20.

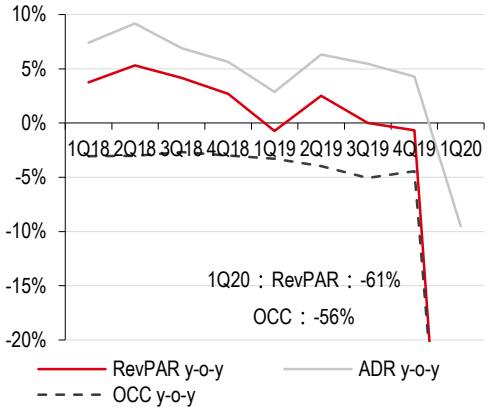
Home Inn is China's No.2 economy brand, but only 21% of overall hotels are mid/high-end

The company's hotel business relies on the Home Inn network, which has an 8.9% market share in terms of hotel rooms in economy LSHs, ranked No.2 in China. BTG Hotels has enhanced its presence in the mid-end hotel market through Home Inn Selected and Home Inn Plus. However, the company still lags behind Jinjiang in the mid-end market, with only 21% of its hotels and 26% of its rooms being mid/high-end, respectively. While BTG Hotels has a leading position in the domestic economy hotel industry, we think there is still room for it to expand into the mid/high-end market.

Since the industry's downturn in 2Q18, the operational efficiency and overall RevPAR growth of BTG Hotels have both deteriorated, which we believe is mainly attributable to the falling occupancy rate.

In response, the company has improved the room mix by increasing the proportion of mid/high-end rooms to 21.8% in 1Q20, up 4.1ppts y-o-y. However, a decline in the RevPAR of mid/high-end and economy hotels since 2019 has weighed on earnings growth.

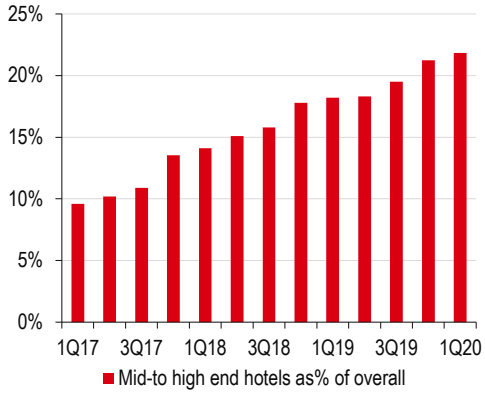
Exhibit 67. RevPAR trend of BTG Hotels



Source: Company data, HSBC Qianhai Securities

* RevPAR from Home Inns Group

Exhibit 68. % of mid-end hotels of BTG Hotels



Source: Company data, HSBC Qianhai Securities

Mix upgrade through upgrading and JV partnership

Upgrading economy hotels: Since 2017, BTG Hotels has launched its NEO3.0 upgrading plan, and by 2019, 360 Home Inn economy hotels (about 17% of Home Inn's total) were upgraded to drive RevPAR growth. We expect the company to further upgrade Home Inn hotels in 2020.

JV partnership: In February 2019, BTG Hotels announced the creation of a joint venture with Hyatt to create new brand *UrCove* ("逸扉"), to leverage Hyatt's experience in operating mid/high-end hotels. Self-operated hotels are scheduled to be opened in Shanghai and Beijing by the end of 2020 to serve the mid/high-end tourism market. Given the strategic alliance between BTG and Hyatt, the company hopes that it could further expand its mid/high-end market share by capitalising on its partner's experience in developed markets.

Exhibit 69. Hotel mix

	2017	2018	2019
Economy hotels	**3,035**	**3,025**	**2,598**
Self-operated	795	721	667
Franchised	2,240	2,304	1,931
Mid-end hotels	**503**	**720**	**945**
Self-operated	129	157	182
Franchised	374	563	763
Airhotels	**-**	**-**	**510**
Self-operated			-
Franchised			510
Others	**174**	**304**	**397**
Self-operated	39	47	2
Franchised	135	257	395
Total	**3,712**	**4,049**	**4,450**
Self-operated	963	925	851
Franchised	2,749	3,124	3,599

Source: Company data, HSBC Qianhai Securities

Earnings estimates

We forecast a 7% and 9% CAGR in 2019-22e revenue and attributable net profit, respectively. Our estimate for 2020e net profit is below consensus, as we expect to see a heavier impact from COVID-19, based on the higher proportion of the company's self-operated hotels.

Exhibit 70. HSBC Qianhai Securities estimates vs. market consensus

	HSBC Qianhai estimates			Market consensus			Difference		
RMBm	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
Revenue	4,908	8,987	10,146	6,463	8,417	8,834	-24%	7%	15%
Attributed net profit	81	929	1,134	179	980	1,120	-55%	-5%	1%

Source: Company data, Wind, HSBC Qianhai Securities estimates

Revenue and RevPAR

In 2019, revenue dropped 3% y-o-y to RMB8.3bn while attributable net profit grew 3% y-o-y to RMB890m. This was mainly due to business suspension for upgrading hotels which led to a decrease in the average room number of self-operated hotels. Recurring net profit increased 18% y-o-y to RMB820m in 2019.

Based on our estimates, we expect hotel operations, hotel management and resorts operation revenue to grow at CAGRs of 5%, 14% and 5%, respectively. We expect overall RevPAR to decline by 37% y-o-y in 2020e but rebound to above the 2019 level in 2021e.

Exhibit 71. Hotel operation and management revenue estimates

	2017a	2018a	2019a	2020e	2021e	2022e
Hotel count						
Economy hotels	**3,035**	**3,025**	**2,598**	**2,470**	**2,360**	**2,270**
Self-operated	795	721	667	620	560	520
Manachised	2,240	2,304	1,931	1,850	1,800	1,750
Mid/high-end hotels	**503**	**720**	**945**	**1,090**	**1,540**	**1,880**
Self-operated	129	157	182	190	240	280
Manachised	374	563	763	900	1,300	1,600
Cloud hotels	**-**	**-**	**510**	**530**	**600**	**700**
Self-operated	-	-	-	-	-	-
Manachised	-	-	510	530	600	700
Other hotels	**174**	**304**	**397**	**402**	**452**	**502**
Self-operated	39	47	2	2	2	2
Manachised	135	257	395	400	450	500
Overall	**3,712**	**4,049**	**4,450**	**4,492**	**4,952**	**5,352**
Self-operated	963	925	851	812	802	802
Manachised	2,749	3,124	3,599	3,680	4,150	4,550
RevPAR in RMB						
Economy hotels	**140**	**143**	**137**	**83**	**145**	**152**
Self-operated	127	129	125	75	132	138
Manachised	146	149	142	86	150	157
Mid/high-end hotels	**250**	**238**	**230**	**137**	**240**	**251**
Self-operated	262	255	250	150	263	276
Manachised	240	228	223	134	234	246
Cloud hotels	**-**	**-**	**109**	**66**	**115**	**121**
Manachised	-	-	109	66	115	121
Overall	**150**	**156**	**158**	**100**	**183**	**198**
Self-operated	143	151	155	97	179	195
Manachised	153	159	160	101	185	198

Source: Company data, HSBC Qianhai Securities estimates

Exhibit 72. Revenue estimates by segment

RMBm	2017	2018	2019	2020e	2021e	2022e
Total revenue	**8,417**	**8,539**	**8,311**	**4,908**	**8,987**	**10,146**
y-o-y	29.0%	1.5%	-2.7%	-40.9%	83.1%	12.9%
Hotel operation	6,677	6,655	6,279	3,692	6,565	7,265
y-o-y	28.6%	-0.3%	-5.7%	-41.2%	77.8%	10.7%
Hotel management	1,295	1,434	1,582	991	1,950	2,362
y-o-y	35.1%	10.7%	10.3%	-37.3%	96.7%	21.2%
Resorts business	444	450	450	225	472	519
y-o-y	19.4%	1.3%	0.0%	-50.0%	110.0%	10.0%

Source: Company data, HSBC Qianhai Securities estimates

EBIT and net profit

EBIT margin improved to c17% in 2019 from c13% in 2016, thanks to the transformation of economy hotel business after the acquisition of Home Inns. We expect 2021-22e EBIT margin remain at about 17%.

Considering the hotel mix optimisation and higher proportion of franchised hotels, we estimate BTG's attributable net profit will expand to about RMB1.13bn in 2022e, indicating a 9% CAGR over 2019-22e.

Exhibit 73. Earnings estimates

RMBm	2017	2018	2019	2020e	2021e	2022e
Total Revenue	**8,417**	**8,539**	**8,311**	**4,908**	**8,987**	**10,146**
Y-o-y change	*29%*	*1%*	*-3%*	*-41%*	*83%*	*13%*
COGS	451	472	525	306	549	607
Gross profit	7,965	8,067	7,786	4,602	8,438	9,539
Gross margin	*94.6%*	*94.5%*	*93.7%*	*93.8%*	*93.9%*	*94.0%*
Sales taxes and others	58	59	56	33	60	68
Selling expense	5,719	5,610	5,402	3,852	5,920	6,627
G&A	948	1058	1036	612	1120	1265
Finance cost	223	172	122	122	122	122
Operating Profit	**1,240**	**1,340**	**1,293**	**106**	**1,338**	**1,579**
operating margin	14.7%	15.7%	15.6%	2.2%	14.9%	15.6%
Y-o-y change	*62%*	*8%*	*-4%*	*-92%*	*1166%*	*18%*
EBIT	**1,196**	**1,444**	**1,389**	**194**	**1,434**	**1,680**
EBIT margin	14%	17%	17%	4%	16%	17%
Pretax profit	**1,001**	**1,286**	**1,277**	**98**	**1,341**	**1,614**
pretax margin	11.9%	15.1%	15.4%	2.0%	14.9%	15.9%
Taxes	342	393	358	15	375	436
tax rate	34.2%	30.6%	28.0%	15.0%	28.0%	27.0%
Profit for minority	28	35	34	3	36	43
Attributed net profit	**631**	**857**	**885**	**81**	**929**	**1,134**
Net margin	7.5%	10.0%	10.6%	1.6%	10.3%	11.2%
Y-o-y change	199%	36%	3%	-91%	1054%	22%

Source: Company data, HSBC Qianhai Securities estimates

Assets and liabilities

As at end-2019, the company's long-term and short-term loans totalled RMB3.06bn, with an overall asset-liability ratio of 46%. We expect the overall asset-liability ratio to slide to 37% in 2022e, given the expanding franchise business, the improving operations and the anticipated profit growth enhanced by long-term SOE reforms.

Exhibit 74. Balance sheet and cash flow

RMBm	2017	2018	2019	2020e	2021e	2022e
Balance sheet						
Cash and cash equivalents	1,450	1,032	1,774	1,322	2,986	3,400
Account receivables	260	305	318	140	550	173
Prepayment	179	179	175	131	291	143
Inventory	46	51	48	9	94	20
Short-term investment	0	0	137	137	137	137
Other current assets	32	765	90	90	90	90
Total current assets	**1,967**	**2,331**	**2,542**	**1,829**	**4,147**	**3,963**
PP&E (excluding CIP)	2,498	2,444	2,390	2,348	2,332	2,269
Long-term investment	498	351	446	446	446	446
Other long-term assets	11,884	11,699	11,732	11,656	11,538	11,449
Total non-current assets	**14,880**	**14,494**	**14,568**	**14,450**	**14,316**	**14,165**
Total assets	16,847	16,824	17,110	16,279	18,463	18,128
Account payable	608	614	560	112	1,076	221
Advances	223	280	257	60	521	135
Short-term debts	1,531	825	1,012	1,012	1,012	1,012
Other current liabilities	1,455	1,812	2,039	2,039	2,039	2,039
Total current liabilities	**3,818**	**3,531**	**3,869**	**3,224**	**4,649**	**3,408**
Long-term debts	3,295	2,813	2,048	1,848	1,648	1,448
Other long-term liabilities	2,108	2,027	1,896	1,896	1,896	1,896
Total non-current liabilities	**5,402**	**4,840**	**3,944**	**3,744**	**3,544**	**3,344**
Total liabilities	**9,220**	**8,371**	**7,813**	**6,968**	**8,193**	**6,752**
Shareholders' equity	7,627	8,453	9,297	9,311	10,270	11,375
Liabilities and shareholders' equity	16,847	16,824	17,110	16,279	18,463	18,128
Cash flow summary						
Net inflow from operation activities	2,065	1,923	1,804	514	2,534	1,344
Net inflow from investment activities	-537	-907	-264	-700	-700	-700
Net inflow from financing activities	-1,173	-1,439	-798	-267	-170	-229

Source: Company data, HSBC Qianhai Securities estimates

Sensitivity analysis amid the pandemic

In 1Q20, the COVID-19 pandemic caused a decline in overall RevPAR and the company incurred net losses. From a full-year perspective, we expect the pandemic to hurt the occupancy rate and the net margin, as many of the company's hotels are located in Beijing where new COVID-19 cases were reported in June.

In the hotel industry, demand is relatively rigid and comes mainly from business travel and tourist trips. We believe the virus impacts on RevPAR could fade away in 2021e. Based on our earnings sensitivity analysis, the pandemic would mainly affect occupancy rate. Assuming no change in the average room rate, every 1% decline in overall occupancy rate would lead to a c3% decrease in attributable net profit in 2021e, from our base case.

Exhibit 75. Sensitivity analysis on 2021e earnings amid the COVID-19 pandemic

Sensitivity analysis	Domestic			
2021e RevPAR		Occupancy rate		
		10%	*Base case*	*-10%*
Average room rate		**84.8%**	**77.1%**	**69.4%**
10%	**262**	222	202	182
Base case	**238**	202	183	165
-10%	**214**	182	165	149
2021e net profit changes		Occupancy rate		
		10%	*Base case*	*-10%*
Average room rate		**84.8%**	**77.1%**	**69.4%**
10%	**262**	60%	29%	-3%
Base case	**238**	29%	0%	-29%
-10%	**214**	-3%	-29%	-55%

Source: Company data, HSBC Qianhai Securities estimates

Valuation and risks

Valuation

From a long-term perspective, as a leading economy hotel player BTG Hotels should be able to generate stable cash flow. Therefore, we use a DCF methodology to value the stock, with underlying assumptions including a 9.6% WACC and 2.0% perpetual growth rate (see table below). Our target price of RMB19.00 implies 20x 2021e PE, 9x 2021e forward EV/EBITDA and 4% upside. We initiate with a Hold rating.

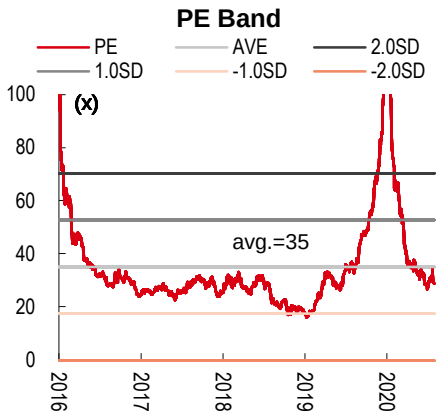
Exhibit 76. BTG Hotels: DCF model

RMBm	2016	2017	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
EBIT	825	1,196	1,444	1,389	194	1,434	1,680	1,967	2,163	2,380	2,594	2,801	3,025	3,237
y-o-y change (%)	0%	45%	21%	-4%	-86%	640%	17%	17%	10%	10%	9%	8%	8%	7%
Operating FCF	920	1,402	1,195	989	51	1,637	973	1,178	1,296	1,426	1,554	1,678	1,813	1,939
y-o-y change (%)	0%	52%	-15%	-17%	-95%	3109%	-41%	21%	10%	10%	9%	8%	8%	7%

Perpetual growth rate	2.0%	Discounted free cash flow	8,558
WACC	9.6%	Discounted terminal value	11,460
Cost of debt after tax	4.9%	Enterprise Value	20,018
CoE	11.1%	Net Cash (Debt)	-1,539
Risk-free rate	2.5%	Equity Value	18,482
Market risk premium	6.0%		
Beta coefficient	1.4	**Value per share (RMB)**	**19.00**
Optimal capital structure	24%		

Source: Company data, HSBC Qianhai Securities estimates

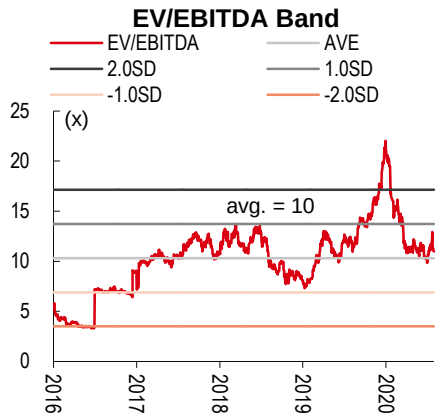
Exhibit 77. Forward PE band of BTG Hotels



Source: Company data, HSBC Qianhai Securities estimates

*Forward PE rose sharply due to the pandemic in 2020.

Exhibit 78. Forward EV/EBITDA band of BTG Hotels



Source: Company data, HSBC Qianhai Securities estimates

*Forward EV/EBITDA rose sharply due to the pandemic in 2020.

Key upside risks

- **New brands:** BTG Hotels is attempting to build new brands while penetrating the mid/high-end markets. Better-than-expected performance by these brands would boost earnings and share price performance.
- **M&A:** M&A of top chain hotel brands amid industry consolidation would create synergies and drive up the share price.
- **Faster-than-expected SOE reform:** Faster-than-expected progress in SOE reform would greatly improve the company's operation.

Key downside risks

- **New brands:** BTG Hotels is penetrating into mid/high-end markets. Weaker-than-expected performance of the new brands would weaken the company's earnings.
- **Macroeconomic slowdown:** The profitability of hotels is correlated with the economic cycle. Any macroeconomic slowdown or sharp fluctuations would notably reduce the company's profitability.
- **Force majeure:** Any force majeure events, like changes in political and economic situations, natural disasters and outbreak of pandemic at home and abroad, would hurt the tourism industry, especially hotels.
- **Rising costs:** Any increase in depreciation and amortisation of fixed assets, property rental, labour costs and energy consumption would weigh on the company's operations and profitability.

Financials & valuation: BTG Hotels Group

Hold

Financial statements

Year to	12/2019a	12/2020e	12/2021e	12/2022e
Profit & loss summary (CNYm)				
Revenue	8,311	4,908	8,987	10,146
EBITDA	2,240	1,012	2,269	2,531
Depreciation & amortisation	-851	-818	-834	-851
Operating profit/EBIT	1,389	194	1,434	1,680
Net interest	-112	-96	-94	-66
PBT	1,277	98	1,341	1,614
HSBC Qianhai PBT	1,277	98	1,341	1,614
Taxation	-358	-15	-375	-436
Net profit	885	81	929	1,134
HSBC Qianhai net profit	885	81	929	1,134
Cash flow summary (CNYm)				
Cash flow from operations	1,804	514	2,534	1,344
Capex	-798	-700	-700	-700
Cash flow from investment	-264	-700	-700	-700
Dividends	-69	-6	-73	-89
Change in net debt	-1,321	252	-1,864	-615
FCF equity	1,007	-186	1,834	644
Balance sheet summary (CNYm)				
Intangible fixed assets	11,563	11,478	11,394	11,309
Tangible fixed assets	2,559	2,526	2,476	2,409
Current assets	2,542	1,829	4,147	3,963
Cash & others	1,774	1,322	2,986	3,400
Total assets	17,110	16,279	18,463	18,128
Operating liabilities	4,753	4,107	5,533	4,292
Gross debt	3,061	2,861	2,661	2,461
Net debt	1,286	1,539	-325	-940
Shareholders' funds	8,947	8,959	9,881	10,943
Invested capital	10,137	10,403	9,499	9,989

Ratio, growth and per share analysis

Year to	12/2019a	12/2020e	12/2021e	12/2022e
Y-o-y % change				
Revenue	-2.7	-40.9	83.1	12.9
EBITDA	-3.8	-54.8	124.3	11.6
Operating profit	-3.9	-86.0	639.7	17.1
PBT	-0.7	-92.3	1270.3	20.4
HSBC Qianhai EPS	3.3	-90.9	1053.9	22.1
Ratios (%)				
Revenue/IC (x)	0.8	0.5	0.9	1.0
ROIC	9.6	1.6	10.4	12.6
ROE	10.3	0.9	9.9	10.9
ROA	6.0	1.1	6.0	6.8
EBITDA margin	27.0	20.6	25.2	24.9
Operating profit margin	16.7	4.0	16.0	16.6
EBITDA/net interest (x)	20.0	10.5	24.2	38.3
Net debt/equity	13.8	16.5	-3.2	-8.3
Net debt/EBITDA (x)	0.6	1.5	-0.1	-0.4
CF from operations/net debt	140.3	33.4		
Per share data (CNY)				
EPS Rep (diluted)	0.90	0.08	0.94	1.15
HSBC Qianhai EPS (diluted)	0.90	0.08	0.94	1.15
DPS	0.07	0.01	0.07	0.09
Book value	9.05	9.07	10.00	11.07

Valuation data

Year to	12/2019a	12/2020e	12/2021e	12/2022e
EV/sales	2.3	4.0	2.0	1.7
EV/EBITDA	8.6	19.2	7.8	6.7
EV/IC	1.9	1.9	1.9	1.7
PE*	20.3	223.4	19.4	15.9
PB	2.0	2.0	1.8	1.6
FCF yield (%)	5.6	-1.0	10.2	3.6
Dividend yield (%)	0.4	0.0	0.4	0.5

* Based on HSBC Qianhai EPS (diluted)

ESG metrics

Environmental Indicators	12/2019a
GHG emission intensity*	n/a
Energy intensity*	n/a
CO_2 reduction policy	n/a
Social Indicators	**12/2019a**
Employee costs as % of revenues	n/a
Employee turnover (%)	n/a
Diversity policy	Yes

Governance Indicators	12/2020e
No. of board members	11
Average board tenure (years)	n/a
Female board members (%)	9.1
Board members independence (%)	36.4

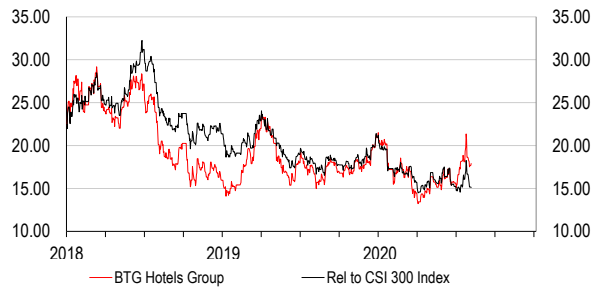
Source: Company data, HSBC Qianhai Securities

* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (CNY)	18.20	Free float	37%
Target price (CNY)	19.00	Sector	Hotels Restaurants & Leisure
RIC (Equity)	600258.SS	Country/Region	China
Bloomberg (Equity)	600258 CH	Analyst	Joseph Zhou
Market cap (USDm)	2,569	Contact	+86 755 8898 3401

Price relative



Source: HSBC Qianhai Securities

Note: Priced at close of 28 Jul 2020

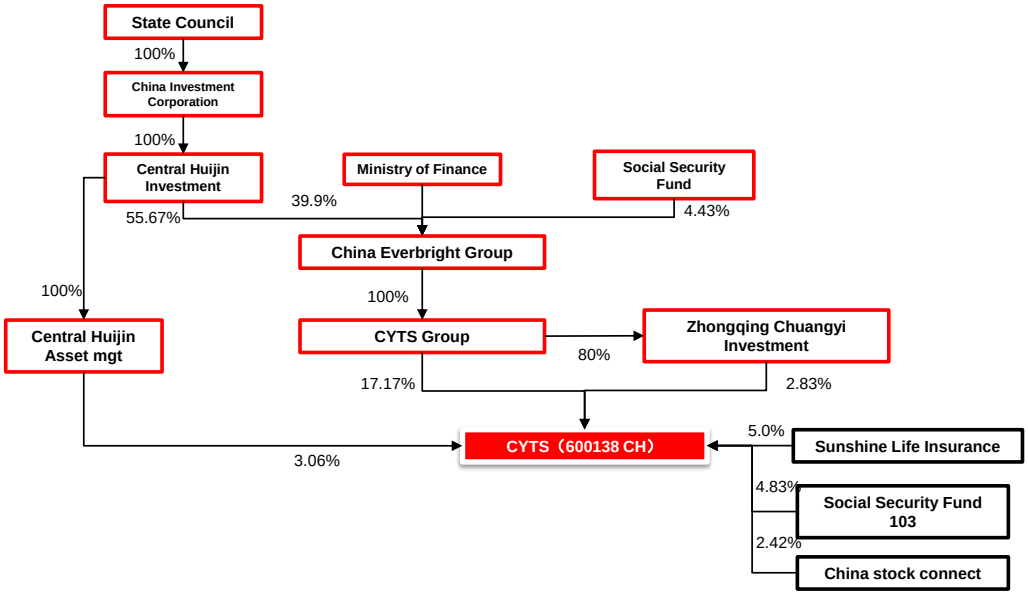
China CYTS Tours (600138 CH)

- Established travel brand which runs two popular scenic resorts; the controlling shareholder is a central government enterprise
- Earnings growth depends on the two resort areas
- Initiate at Hold and a TP of RMB12.00

A well-established brand

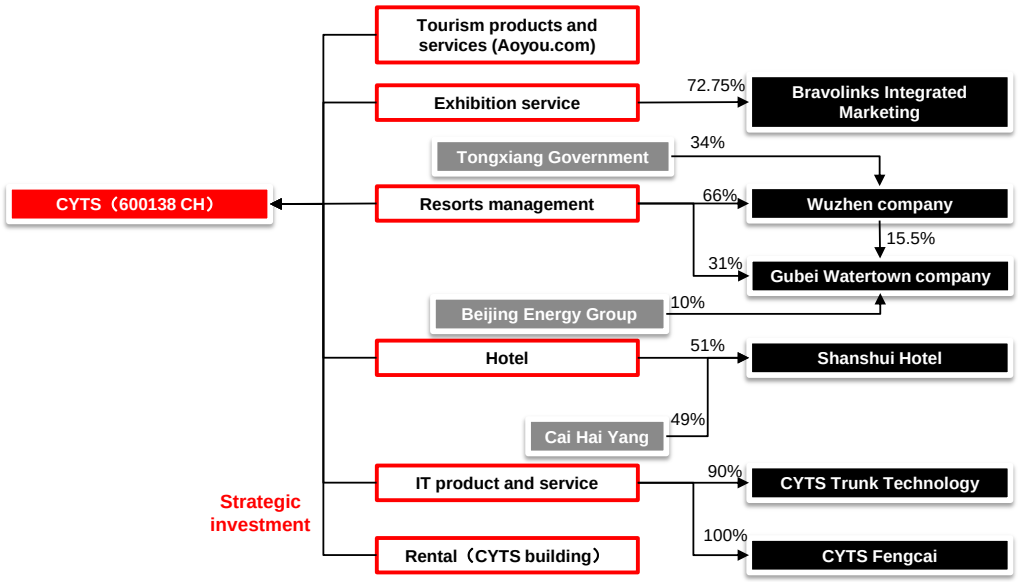
China CYTS Tours was founded and listed in 1997. Beijing based, the company's original controller was the Central Committee of the China Communist Youth League, but after the national equity transfer in 2018, the company is now controlled by China Everbright Group, with the actual controller changing to the State Council. CYTS has five main revenue streams – a travel agency, integrated marketing services (exhibition business), resort operations, and hotels – as well as a strategic investment business. The jewels in the crown that drive profits are two themed resorts built around ancient towns that have been turned into major tourist attractions.

Exhibit 79. Shareholding structure of China CYTS Tours



Source: Company data, HSBC Qianhai Securities

Exhibit 80. Main business segments and important subsidiaries

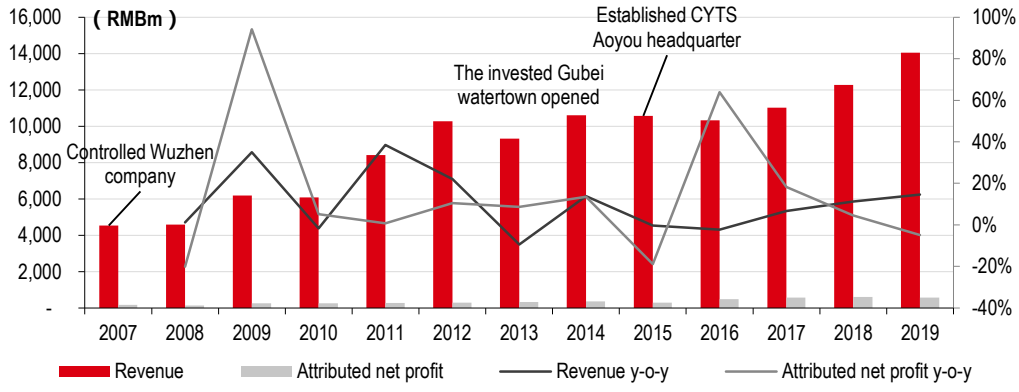


Source: Company data, HSBC Qianhai Securities

The company has a branding edge in the travel industry. CYTS has become the core brand, with AoYou and SparkeTour as the sub-brands of its travel agency business. The two major themed resorts – the Wuzhen and Gubei water towns – are the sub-brands of the scenic area business. According to “2019 China’s 500 Most Valuable Brands” issued by World Brand Lab, “CYTS” was selected as one of China’s top 500 most valuable brands.

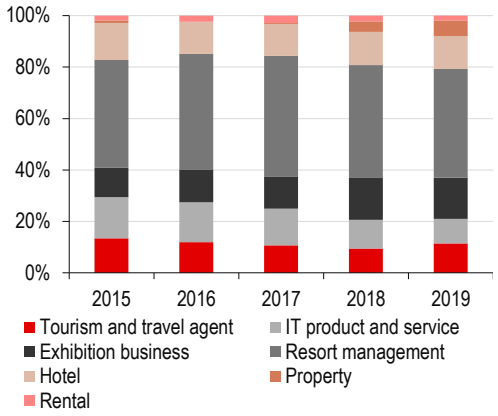
In 2019, the company’s revenue grew 15% y-o-y. The revenue was split between travel products and services (34%), IT products and services (27%), business exhibitions (19%) and resorts business (13%). Despite its relatively small contribution to revenue, the resorts business generated 42% of gross profit, followed by exhibitions (16%), travel (11%) and the IT service business (10%). In 2019, the resorts business contributed 84% of profit after tax. Wuzhen and Gubei are positioned as integrated resorts with hotels, retail shops and catering and leisure services. The themed ancient towns target a broad spectrum of visitors, from casual sightseers on group tours to business travellers hosting events and conferences.

Exhibit 81. CYTS revenue and net profit trend



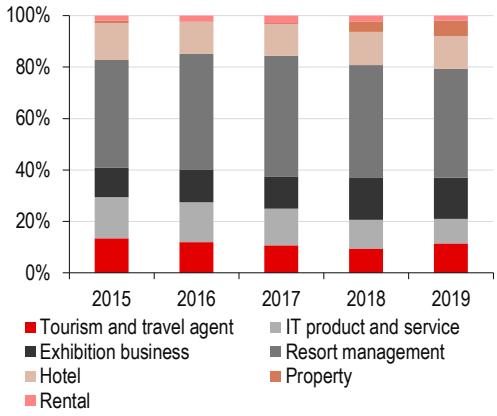
Source: Company data, HSBC Qianhai Securities

Exhibit 82. Revenue breakdown



Source: Company data, HSBC Qianhai Securities

Exhibit 83. Gross profit breakdown

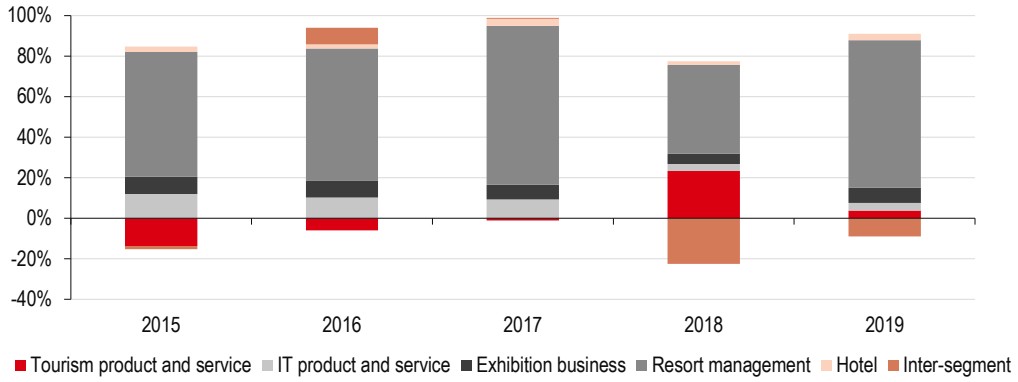


Source: Company data, HSBC Qianhai Securities

The core Wuzhen resorts contributed 80% of profit after tax

Despite the broad range of businesses, the profit margins of most segments are low. For example, revenues for the travel agency and IT products and services grew 21% and 16% y-o-y in 2019, but profitability was low largely because of strong competition. The exception is the resorts business, which contributed 84% of profit after tax last year and drives earnings growth. Specifically, the profit from these scenic areas is mainly investment returns from the Wuzhen Tourist Company and Gubei Water Town.

Exhibit 84. 2019 profit after tax breakdown by business segment



Source: Company data, HSBC Qianhai Securities

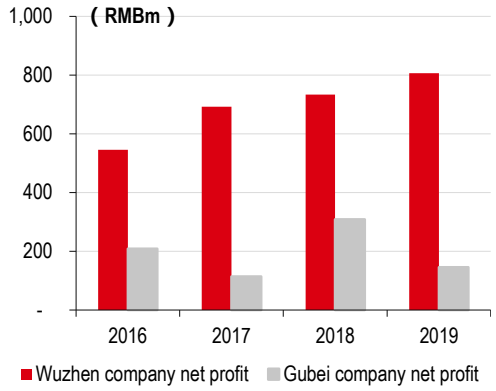
The company obtained majority control in the Wuzhen Tourism Company in 2006 and currently has a 66% stake. Wuzhen, located in Tongxiang City, Zhejiang Province, has a history going back 1,300 years and is classified as a 5A scenic area by the China National Tourism Administration, the highest grade, and one of only 280 in China.

The Beijing-Hangzhou Grand Canal runs through the town, which is criss-crossed by rivers and canals. The canal network divides Wuzhen into four areas, East Gate, West Gate, South Gate, and North Gate. The Wuzhen Tourism Company owns the exclusive rights to operate East Gate, West Gate and the central market. It's a mature project and in 2019 revenue and net profit (excluding real estate) grew 4% and 7% y-o-y to RMB1.76bn and RMB760m, respectively.

Profitability of Gubei Water Town weaker than that of Wuzhen

Gubei Water Town is located at Gubeikou Town, Miyun District, Beijing. It is an integrated resort, including sightseeing, vacations, business exhibitions and creative culture. Gubei Water Town company's 2019 revenue and net profit fell 5% and 53% to RMB950m and RMB150m, respectively, mainly due to rising operating costs and a decrease in investment income (from the property company).

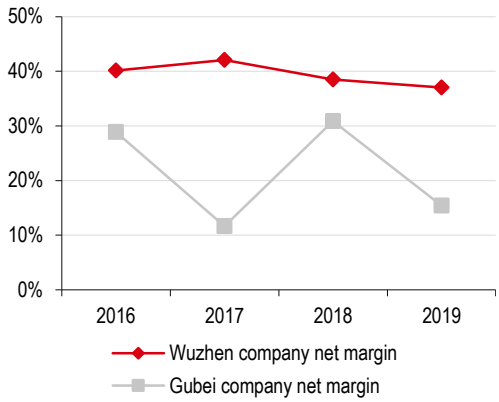
Exhibit 85. Net profit of the Wuzhen and Gubei Water Town companies



Source: Company data, HSBC Qianhai Securities

Note: Due to the increase in investment income from property company with equity participation, Gubei's 2018 net profit jumped 170% y-o-y.

Exhibit 86. Net margin of Wuzhen and Gubei Water Town companies



Source: Company data, HSBC Qianhai Securities

Wuzhen is a much bigger resort. Gubei Water Town's 2019 revenue and visitor numbers were only 44% and 26% of Wuzhen's. We think the lower net margin of Gubei Water Town is due to the following reasons:

- Gubei Water Town opened much later and it is still in a growth phase and is not as well-known as Wuzhen.
- It is mainly for short trips and most visitors come from the Beijing-Tianjin-Hebei region.
- Being based in northern China, there are distinct high and low seasons, while visitor flows at Wuzhen are relatively stable throughout the year.
- The company has an equity stake in Gubei Water Town but is not the controlling shareholder.

There is a ceiling on the number of visitors to these ancient towns. Long-term growth depends on an increase in per capita consumption

Visitor flows at both scenic areas peaked in 2017 and has declined since 2018, largely because of increasing competition and weaker economic growth. But, with the help of further development and their increasing reputation, per capita consumption is rising y-o-y.

Exhibit 87. Visitor flows and per capita consumption

	2014	2015	2016	2017	2018	2019
Wuzhen resort						
Wuzhen visitor flow ('000 people)	**6,926**	**7,953**	**9,064**	**10,135**	**9,150**	**9,183**
y-o-y	22%	15%	14%	12%	-10%	0%
- East Gate ('000)		3,952	4,299	4,689	4,010	3,886
y-o-y			9%	9%	-14%	-3%
- West Gate ('000)		4,001	4,765	5,446	5,140	5,297
y-o-y			19%	14%	-6%	3%
Per capita consumption in Wuzhen scenic area (RMB)	**140**	**142**	**150**	**157**	**184**	**191**
y-o-y	3%	2%	6%	5%	17%	4%
Gubei Water Town resort						
Gubei visitor flow ('000)	**976**	**1,470**	**2,439**	**2,754**	**2,565**	**2,394**
y-o-y		51%	66%	13%	-7%	-7%
Per capita consumption in Gubei (RMB)	**202**	**314**	**297**	**355**	**389**	**397**
y-o-y		56%	-5%	20%	9%	2%

Source: Company data, HSBC Qianhai Securities

Further expansion is limited by their geographical location. We estimate Wuzhen's visitor flow ceiling to be 10m and Gubei Water Town's 3m. This means that in the long term higher per capita consumption will be the main revenue growth driver.

In addition to ticket revenue, per capita consumption comes from accommodation services, souvenir income, exhibition business, and IP products (such as the Wuzhen Theatre Festival). Gross margin is relatively high and the areas receive policy support for the local governments, but as domestic tourism continues to grow, competition is likely to intensify.

A new project is being developed – the Puyuan scenic area, about 30 minutes' drive from Wuzhen. We believe it will be a new revenue driver for the company. A trial opening was scheduled for this year but was delayed due to the pandemic. It is still not clear when it will open.

Earnings estimates

Revenue breakdown and estimates

Revenue grew 15% y-o-y to RMB14.054bn in 2019; net profit attributable to the parent fell 5% y-o-y to RMB568m.

As a result of the pandemic the number of visitors to the resort areas has plummeted. We estimate 2020e revenue and net profit will drop 36% and 79% y-o-y to RMB8.941bn and RMB119m, respectively. We expect 2021e revenue and net profit to recover to the 2019 level. We estimate 2019-21e revenue and net profit to grow at CAGRs of 4% and 8%.

For the core resorts business, we estimate Wuzhen and Gubei's 2020e visitor flows will drop 50% y-o-y, but growth should resume in 2021e and 2022e. We estimate per capita consumption of Wuzhen and Gubei Water Town will both grow at a CAGR of 5% over 2019-22e.

Exhibit 88. Resorts operation forecast of CYTS

RMBm	2017	2018	2019	2020e	2021e	2022e
Wuzhen company						
Revenue of Wuzhen	**1,646**	**1,905**	**2,179**	**1,218**	**2,251**	**2,366**
y-o-y	21%	16%	14%	-44%	85%	5%
Revenue of Wuzhen resorts (excluding property)	**1,596**	**1,686**	**1,757**	**923**	**1,986**	**2,127**
y-o-y	17%	6%	4%	-48%	115%	7%
Net profit	**692**	**734**	**807**	**168**	**880**	**938**
y-o-y	27%	6%	10%	-79%	424%	7%
Net profit margin	42%	39%	37%	14%	39%	40%
Net profit of Wuzhen resorts	**687**	**713**	**765**	**138**	**854**	**915**
y-o-y	26%	4%	7%	-82%	517%	7%
Net profit margin of scenic area	43%	42%	44%	15%	43%	43%
Wuzhen visitor flow (y-o-y)	12%	-10%	0%	-50%	105%	2%
Per capita consumption in Wuzhen Scenic area (y-o-y)	5%	17%	4%	5%	5%	5%
Gubei Water Town company						
Gubei Water Town revenue	**979**	**998**	**950**	**499**	**1,047**	**1,155**
y-o-y	35%	2%	-5%	-48%	110%	10%
Net profit	**114**	**308**	**146**	**77**	**157**	**173**
y-o-y	-45%	170%	-53%	-48%	105%	10%
Net profit margin	12%	31%	15%	15%	15%	15%
Gubei visitor flow (y-o-y)	13%	-7%	-7%	-50%	100%	5%
Per capita consumption in Gubei (y-o-y)	20%	9%	2%	5%	5%	5%

Source: Company data, HSBC Qianhai Securities estimates

Exhibit 89. P&L forecast of CYTS

RMBm	2017	2018	2019	2020e	2021e	2022e
Revenue	**11,020**	**12,265**	**14,054**	**8,941**	**14,282**	**15,660**
y-o-y	7%	11%	15%	-36%	60%	10%
Operating costs	8,215	9,162	10,668	7,326	10,834	11,929
Gross profit	**2,804**	**3,103**	**3,385**	**1,615**	**3,448**	**3,731**
Gross profit margin	25.4%	25.3%	24.1%	18.1%	24.1%	23.8%
Business tax and surcharges	48	97	98	62	99	109
Selling expenses	1,207	1,276	1,533	965	1,465	1,578
Admin expenses (including R&D)	641	675	756	501	757	814
Financial expenses	77	104	116	134	136	143
Asset impairment loss	3	46	19	19	19	19
Investment gains (Gubei)	59	132	85	36	73	80
Operating profit	**887**	**1,037**	**947**	**(30)**	**1,044**	**1,148**
Operating margin	8.0%	8.5%	6.7%	-0.3%	7.3%	7.3%
y-o-y	15%	17%	-9%	-103%	-3601%	10%
Non-operating revenue	286	212	276	313	313	313
Non-operating expenses	7	3	2	2	2	2
EBIT	**1,211**	**1,363**	**1,372**	**435**	**1,512**	**1,622**
EBIT margin	11%	11%	10%	5%	11%	10%
Profit before tax	1,158	1,245	1,233	279	1,353	1,457
Profit margin before tax	10.5%	10.2%	8.8%	3.1%	9.5%	9.3%
Tax	295	327	323	73	355	382
Tax rate	25.5%	26.3%	26.2%	26.2%	26.2%	26.2%
Minority interests	291	320	342	87	343	365
Attributable net profit	**572**	**597**	**568**	**119**	**655**	**710**
Net margin	5.2%	4.9%	4.0%	1.3%	4.6%	4.5%
Y-o-y	18%	4%	-5%	-79%	450%	8%

Source: Company data, HSBC Qianhai Securities estimates

Net profit

As risks from the pandemic remain – controls have strengthened in some local areas in Beijing since late June – we think this will affect earnings from the resorts business in 2H. Our 2020e net profit is lower than market consensus.

The firm has a 66% stake in Wuzhen, which is consolidated into the balance sheet. It has a 46.5% stake in Gubei, so Gubei's earnings are consolidated into the income statement via

equity investment. We believe that the impact of the pandemic will be limited to 2020, and that in 2021 the two major resorts will again be the company's main earnings drivers.

In 2019, the Wuzhen company's net profit margin was 37%. We expect its revenue to grow at 3% CAGR in 2019-22e, to RMB2,370bn in 2022e, with net profit rising at a 5% CAGR, to RMB938m.

In 2019, Gubei Water Town company's net profit margin was 15%. We estimate its revenue to grow at a 7% CAGR over 2019-22e, to RMB1.155bn in 2022e, with net profit increasing at a 6% CAGR, to RMB170m.

Exhibit 90. HSBC Qianhai Securities estimates vs consensus

	HSBC Qianhai Securities estimates			Consensus			Difference		
RMBm	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
Revenue	8,941	14,282	15,660	10,635	14,515	15,751	-16%	-2%	-1%
Net profit	119	655	710	322	630	725	-63%	4%	-2%

Source: Company data, Wind, HSBC Qianhai Securities estimates

We estimate the company's 2020-22e net profit attributable to the parent will grow -79%, +450% and +8% y-o-y, based on our earnings estimates for Wuzhen and Gubei, with a net profit CAGR of 8% over the same period.

Balance sheet and cash flow

At the end of 2019, net debt was RMB2.54bn, with net debt ratio (net debt/owner's equity) as high as 38%. We estimate the net debt ratio to rise to 40% by the end of 2020e. With visitor flows recovering in 2021-22, we expect the net debt ratio to go back to 27% by the end of 2022e.

We estimate 2020-22e average annual fixed capital expenditure to be RMB800m, mainly for the Puyuan project, renovation of the existing scenic areas and tourist facilities.

Exhibit 91. Balance sheet and cash flow

RMBm	2017	2018	2019	2020e	2021e	2022e
Balance sheet estimates						
Cash & cash equivalents	1,160	1,248	849	832	453	1,376
Receivables	2,296	2,436	2,581	996	3,765	2,499
Prepayments	466	596	921	300	1,247	343
Inventories	1,805	2,093	2,367	2,048	2,701	2,201
Other current assets	133	165	339	339	339	339
Total current assets	**5,859**	**6,538**	**7,057**	**4,515**	**8,505**	**6,759**
PP&E (excluding CIP)	3,015	3,488	4,084	4,494	4,957	5,439
Long-term investments	1,804	2,012	2,474	2,474	2,474	2,474
Other long-term assets	2,343	2,555	2,822	2,921	2,940	2,913
Total non-current assets	**7,162**	**8,055**	**9,380**	**9,889**	**10,372**	**10,826**
Total assets	**13,021**	**14,594**	**16,437**	**14,404**	**18,877**	**17,585**
Payables	2,046	2,390	2,550	1,062	3,093	2,136
Advances	911	1,017	1,025	274	1,801	474
Short-term borrowings	1,872	2,457	2,514	2,514	2,514	2,514
Other current liabilities	148	63	135	135	135	135
Total current liabilities	**4,977**	**5,927**	**6,224**	**3,986**	**7,543**	**5,259**
Long-term borrowings	533	498	1,026	1,026	1,026	1,026
Other long-term liabilities	24	10	240	240	240	240
Total non-current liabilities	**557**	**508**	**1,267**	**1,267**	**1,267**	**1,267**
Total liabilities	**5,534**	**6,435**	**7,491**	**5,252**	**8,810**	**6,526**
Shareholders' equity	7,487	8,159	8,946	9,152	10,067	11,059
Liabilities and shareholders' equity	13,021	14,594	16,437	14,404	18,877	17,585
Free cash flow summary						
Net operating cash inflow	-786	719	596	695	161	1,441
Net cash inflow from investment activities	27	-893	-1,380	-800	-800	-800
Net cash inflow from financing activities	1,012	253	379	87	260	282

Source: Company data, HSBC Qianhai Securities

Sensitivity analysis of earnings to changes in Wuzhen visitor flows

After the outbreak of COVID-19 the Ministry of Culture and Tourism required travel agencies to halt domestic tour groups from 24 January, and overseas tour groups from 27 January. Wuzhen started to accept limited numbers of visitors at the end of February but guest flow has yet to reach the level of the same period last year. As it makes the largest contribution to the company's profits, we conduct a sensitivity analysis of net profit to changes in Wuzhen's visitor flows. The 2020e net profit would decrease additional 3.2% y-o-y once visitor flows dropped 10% y-o-y more, based on our estimates.

Exhibit 92. Sensitivity analysis of net profit to changes in Wuzhen visitor flows (2020)

2020 full-year Wuzhen visitor flow y-o-y	-70%	-60%	-50%	-40%	-30%
2020 full-year overall net profit y-o-y	-85%	-82%	-79%	-76%	-73%

Source: Company data, HSBC Qianhai Securities estimates

Valuation and risks

Valuation

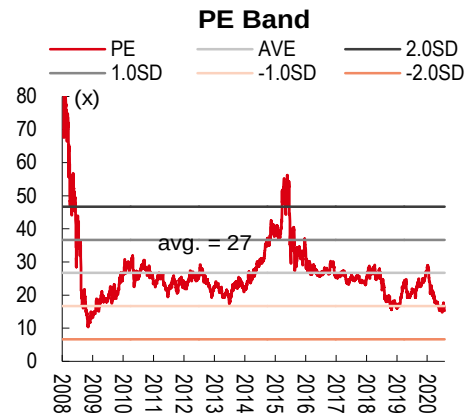
From a long-term perspective earnings visibility is high. We therefore think a PE methodology is the most approporiate way to value the stock. We assign a 13x 2021e target PE to China CYTS Tours, about 1.5 SD below the historical average.

The stock is currently trading at 15x 12-month forward PE, 1SD lower than historical average, in line with the historical low in 2013-2H14. The 2013 and 2014 net profit growth was 9% and 13%, respectively. We estimate CYTS's 2019-22e attributable net profit CAGR to be c8%. Therefore, we think a 2021e target PE, 1.5 SD below the historical average, is justified.

Considering that c80% of China CYTS Tours' profit after tax comes from the Wuzhen company, we pick Mount Emei and Huangshan as the comparable companies. These scenic resort companies are trading at 15x 2021e forward PE, but CYTS has a wider range of business segments, so synergies are limited. We think a 15% discount is reasonable, so we use 13x 2021e target PE to value the stock.

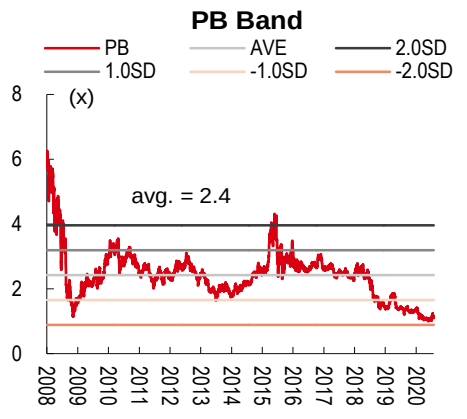
Based on RMB0.90 2021e EPS, we derive our TP of RMB12.00, implying 15% upside. We initiate coverage with a Hold rating. Over the past three years, the firm has faced pressure from lower ticket prices and business consolidation, as well the more recent impact of the pandemic. Meanwhile, the opening schedule and level of profitability of new projects remain uncertain.

Exhibit 93. China CYTS Tours' forward PE



Source: Company data, HSBC Qianhai Securities estimates

Exhibit 94. China CYTS Tours' forward PB



Source: Company data, HSBC Qianhai Securities estimates

Key upside risks

- **Better-than-expected Wuzhen and Gubei revenue recovery:** If the recovery in visitor flows at Wuzhen and Gubei is better than expected, or more cultural consumption content is injected into the current scenic areas, earnings will be boosted.
- **Asset injection from the parent company:** If the major shareholder, Everbright Group, injects capital into the company to improve its financial structure, share prices will be boosted.
- **Faster-than-expected recovery:** If the recovery of domestic and overseas travel is faster than expected after the pandemic, the travel agency and scenic area businesses will benefit.
- **Easing competition:** The scenic area business requires considerable upfront investment, overall planning and design, which represent competitive barriers to entry. If there is no substantial increase in scenic areas, competition will gradually ease.

Key downside risks

- **Slower-than-expected Wuzhen and Gubei revenue recovery:** If the recovery in visitor flows at Wuzhen and Gubei is weaker than expected, or per capita consumption growth of the existing scenic areas keeps slowing, there will be a drag on earnings.
- **Intensifying scenic area competition:** Given the higher profit margin of mature scenic areas and the significant edge in peripheral industry consumption, related policies across the country and local governments might step up the support for the local travel industry. In the event of a new investment in scenic areas, the supply of scenic area will increase, and competition will intensify.
- **Consumer behaviour after the pandemic:** If consumer habits change after the pandemic people may be less willing to travel.
- **Force majeure:** The occurrence of major natural disasters and diseases will reduce the willingness to travel. The more serious the disasters, the greater impact on the travel industry.

Financials & valuation: China CYTS Tours

Hold

Financial statements

Year to	12/2019a	12/2020e	12/2021e	12/2022e
Profit & loss summary (CNYm)				
Revenue	14,054	8,941	14,282	15,660
EBITDA	1,668	726	1,830	1,967
Depreciation & amortisation	-296	-291	-317	-346
Operating profit/EBIT	1,372	435	1,513	1,621
Net interest	-139	-156	-159	-165
PBT	1,233	279	1,353	1,457
HSBC Qianhai PBT	1,233	279	1,353	1,457
Taxation	-323	-73	-355	-382
Net profit	568	119	655	710
HSBC Qianhai net profit	568	119	655	710
Cash flow summary (CNYm)				
Cash flow from operations	596	695	161	1,441
Capex	-1,066	-800	-800	-800
Cash flow from investment	-1,380	-800	-800	-800
Dividends	-29	0	-97	-105
Change in net debt	985	47	296	-909
FCF equity	-469	-105	-639	641
Balance sheet summary (CNYm)				
Intangible fixed assets	2,380	2,307	2,233	2,160
Tangible fixed assets	4,526	5,108	5,665	6,193
Current assets	7,057	4,486	8,559	6,799
Cash & others	849	803	507	1,416
Total assets	16,437	14,375	18,931	17,625
Operating liabilities	3,950	1,711	5,269	2,985
Gross debt	3,541	3,541	3,541	3,541
Net debt	2,691	2,738	3,034	2,125
Shareholders' funds	6,592	6,682	7,337	7,950
Invested capital	9,163	9,387	10,681	10,750

Ratio, growth and per share analysis

Year to	12/2019a	12/2020e	12/2021e	12/2022e
Y-o-y % change				
Revenue	14.6	-36.4	59.7	9.6
EBITDA	3.3	-56.5	151.9	7.5
Operating profit	0.7	-68.3	247.5	7.2
PBT	-1.0	-77.4	384.6	7.7
HSBC Qianhai EPS	-4.9	-79.1	450.3	8.4
Ratios (%)				
Revenue/IC (x)	1.7	1.0	1.4	1.5
ROIC	11.9	3.5	11.1	11.2
ROE	8.9	1.8	9.3	9.3
ROA	6.6	2.2	6.8	6.6
EBITDA margin	11.9	8.1	12.8	12.6
Operating profit margin	9.8	4.9	10.6	10.4
EBITDA/net interest (x)	12.0	4.7	11.5	12.0
Net debt/equity	30.1	30.0	30.0	19.1
Net debt/EBITDA (x)	1.6	3.8	1.7	1.1
CF from operations/net debt	22.2	25.4	5.3	67.8
Per share data (CNY)				
EPS Rep (diluted)	0.78	0.16	0.90	0.98
HSBC Qianhai EPS (diluted)	0.78	0.16	0.90	0.98
DPS	0.04	0.00	0.13	0.15
Book value	9.11	9.23	10.14	10.98

Valuation data

Year to	12/2019a	12/2020e	12/2021e	12/2022e
EV/sales	0.7	1.1	0.8	0.7
EV/EBITDA	6.1	14.1	6.0	5.3
EV/IC	1.1	1.1	1.0	1.0
PE*	13.3	63.6	11.5	10.7
PB	1.1	1.1	1.0	1.0
FCF yield (%)	-6.2	-1.4	-8.4	8.5
Dividend yield (%)	0.4	0.0	1.3	1.4

* Based on HSBC Qianhai EPS (diluted)

ESG metrics

Environmental Indicators	12/2019a
GHG emission intensity*	n/a
Energy intensity*	n/a
CO_2 reduction policy	Yes
Social Indicators	**12/2019a**
Employee costs as % of revenues	n/a
Employee turnover (%)	n/a
Diversity policy	Yes

Governance Indicators	12/2019a
No. of board members	11
Average board tenure (years)	n/a
Female board members (%)	0
Board members independence (%)	36.4

Source: Company data, HSBC Qianhai Securities

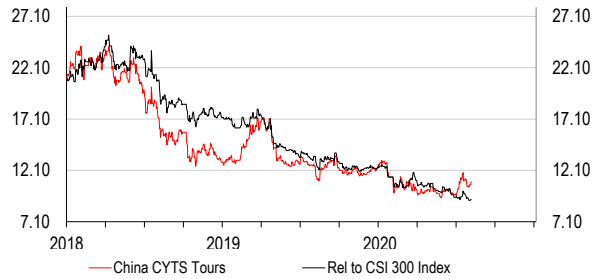
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (CNY)	10.45
Target price (CNY)	12.00
RIC (Equity)	600138.SS
Bloomberg (Equity)	600138 CH
Market cap (USDm)	1,081

Free float	67%
Sector	Hotels Restaurants & Leisure
Country/Region	China
Analyst	Joseph Zhou
Contact	+86 755 8898 3401

Price relative



Source: HSBC Qianhai Securities

Note: Priced at close of 28 Jul 2020

Disclosure appendix

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Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

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*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

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Hold	36%	(32% of these provided with Investment Banking Services)
Sell	9%	(24% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see "Stock ratings and basis for financial analysis" above.

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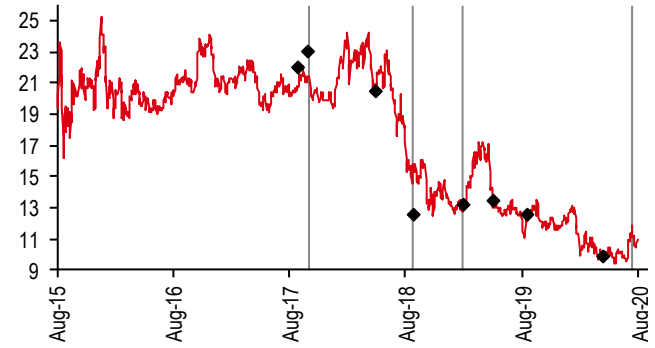
Share price and rating changes for long-term investment opportunities

China CYTS Tours (600138.SS) share price performance CNY Vs HSBC rating history



Source: HSBC

Rating & target price history

From	To	Date	Analyst
Buy	Hold	28 Sep 2017	Lina Yan
Hold	Reduce	24 Aug 2018	Lina Yan
Reduce	Hold	29 Jan 2019	Lina Yan
Hold	N/A	10 Jul 2020	
Target price	**Value**	**Date**	**Analyst**
Price 1	21.90	25 Aug 2017	Lina Yan
Price 2	22.90	28 Sep 2017	Lina Yan
Price 3	20.44	30 Apr 2018	Lina Yan
Price 4	12.47	24 Aug 2018	Lina Yan
Price 5	13.11	29 Jan 2019	Lina Yan
Price 6	13.41	06 May 2019	Lina Yan
Price 7	12.44	16 Aug 2019	Lina Yan
Price 8	9.82	13 Apr 2020	Lina Yan
Price 9	N/A	10 Jul 2020	

Source: HSBC

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HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price date	Disclosure
BTG HOTELS GROUP	600258.SS	17.90	03 Aug 2020	6, 7

Source: HSBC

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Katharine Song joined HSBC Qianhai Securities Limited in 2017 and covers the consumer staples sub-sectors and forest & paper industry. Previously, Katharine worked as an equity analyst for a joint venture investment bank in China, where she focused on the brewery and forest & paper industries. She holds a BSc in statistics from Fudan University.

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